

# Asahi

ANNUAL REPORT 1997



## **Furthering a Reputation for Identifying and Quenching Consumer Tastes**



ASAHI BREWERIES, LTD.

**Founded in 1889, Asahi Breweries, Ltd., is Japan's foremost innovator in the beer industry. *Asahi Super Dry*, Japan's leading beer, achieved sales of approximately 170.6 million cases in the fiscal year ended December 31, 1997. Asahi boasts fully integrated production, inventory control, and marketing systems that operate under the Company's Fresh Management principles to ensure the timely supply of products to consumers. Overseas, Asahi is cooperating with other leading breweries to promote the Asahi brand name in major beer markets throughout the world.**

**In pursuing business development, Asahi gives careful consideration to environmental preservation at all times and is close to realizing the goal of zero waste in all its production operations. We are committed to improving the communities we serve while meeting the needs and fulfilling the expectations of consumers with products of the highest quality.**

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# FINANCIAL HIGHLIGHTS

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars	Increase (decrease) (%)
	1997	1996	1997	
<b>For the year:</b>				
Net sales.....	<b>¥1,313,257</b>	¥1,212,046	<b>\$10,094,209</b>	<b>8.4</b>
Operating income.....	<b>96,299</b>	99,643	<b>740,191</b>	<b>(3.4)</b>
Net income.....	<b>11,555</b>	8,231	<b>88,816</b>	<b>40.4</b>
Capital investments.....	<b>100,936</b>	48,366	<b>775,834</b>	<b>108.7</b>
Depreciation.....	<b>35,740</b>	34,245	<b>274,712</b>	<b>4.4</b>
<b>At year-end:</b>				
Total assets.....	<b>¥1,616,210</b>	¥1,697,268	<b>\$12,422,826</b>	<b>(4.8)</b>
Total shareholders' equity.....	<b>374,591</b>	319,645	<b>2,879,251</b>	<b>17.2</b>
<b>Per share data (in yen and U.S. dollars):</b>				
Net income.....	<b>¥ 25.15</b>	¥ 19.18	<b>\$0.19</b>	<b>31.1</b>
Cash dividends applicable to the year.....	<b>11.00</b>	10.00	<b>0.08</b>	<b>10.0</b>
Shareholders' equity.....	<b>776.68</b>	723.99	<b>5.97</b>	<b>7.3</b>

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥130.10 to US\$1, the exchange rate prevailing at December 31, 1997.

## OPERATIONAL HIGHLIGHTS

- **Asahi defied insipid market conditions to record the largest year-on-year growth in operating profit among Japanese breweries.**
- **In 1997, *Asahi Super Dry* remained the leading beer in Japan and set new shipment records.**
- **Among financial restructuring activities, Asahi's wholly owned Australian subsidiary Asahi Beer International Holding (Australia) Ltd. sold its shares issued by Foster's Brewing Group Ltd. and bonds.**
- **Having achieved a 100% component and by-product recycling rate at its Ibaraki Brewery, Asahi has now set its sights on realizing zero waste in all production operations by 1998.**

# Furthering a Reputation for Identifying and Quenching Consumer Tastes

During fiscal 1997, ended December 31, 1997, the Japanese beer industry continued to be affected by the dramatic restructuring taking place in the domestic distribution and marketing sectors. Amid further change, annual domestic beer sales on a tax volume basis contracted 2.2%, in contrast with marginal 1% growth in the previous fiscal year. This result reflected dampened consumer spending following the increase in the national consumption tax rate in April 1997 and the elimination of special income tax reductions. ♦ Against this backdrop, Asahi Breweries, Ltd., concentrated on boosting sales of its flagship beer *Asahi Super Dry*. The Company complemented these efforts by promoting *Asahi Kuronama (Black Draft Beer)*, *Asahi First Lady*, and other offerings with distinctive tastes catering to emerging market segments. The success of aggressive, well-focused campaigns underpinned an 11% rise in net domestic beer sales and enabled the Company to increase its share of the domestic beer market four percentage points, to 34.4% on a tax volume basis. *Asahi Super Dry* was again a star performer, with sales advancing 17% from the previous year's level. Asahi has sold more than 100 million cases a year of *Asahi Super Dry* for nine consecutive years, and it is now firmly established as the leading beer in Japan. ♦ In other alcoholic beverages, The Nikka

Whisky Distilling Co., Ltd., prepared for the stimulus to demand provided by revisions to the Liquor Tax Law in October 1997 by releasing *New Malt Club*, *Black Nikka Clear Blend*, and other whiskeys and endeavored to assemble a more diverse product lineup to attract a broader customer base. However, sales gains made in the latter part of the year were not enough to compensate for overall weak demand, with sales declining on the whole. This decrease was more than offset by higher beer sales, and consolidated sales of alcoholic beverages rose 9.1%, to a record figure of ¥1,017.9 billion for the year under review. ♦ In soft drinks and food, sales of such mainstay products as *Mitsuya Cider* and *Bireley's* fruit juice drinks expanded steadily, while the new canned coffee *WONDA*, which was released in September 1997, was well received by the market. Consequently, consolidated sales of soft drinks and food grew 6.3%, to ¥204.2 billion. ♦ Consolidated pharmaceutical sales increased 4.3%, to ¥41.9 billion, with higher sales of in-house-developed drugs contributing to the growth in profits in this sector. Real estate leasing and sales revenues totaled ¥4.5 billion, up 17.5% from the previous year's figure. ♦ As a result of the aforementioned performances, consolidated net sales in fiscal 1997 expanded 8.4%, to ¥1,313.3 billion, and net income leapt 40.4%, to ¥11.6 billion—a

record high. Net income per share soared ¥5.97, to ¥25.15, and Asahi's cash dividends per share applicable to the year were ¥11.00, up from ¥10.00 in fiscal 1996.

## SERVING CONSUMERS

All of Asahi's corporate activities are based on a management philosophy that views superior customer service and product quality as critical to building a successful business. Our Fresh Management principles emphasize the integration of research, production, distribution, and marketing activities to optimize product quality. In specific terms, we have gradually reduced delivery times and now ensure that *Asahi Super Dry* is on retailers' shelves within eight days from the completion of production. ♦ Customer satisfaction is an evolving goal that is only achieved through careful observations and well-considered responses. Therefore, we closely monitor lifestyle trends and consumer preferences. Information gathered through meticulous market research forms the fiber of our product development, advertising, and sales activities. We believe the outstanding growth in the market share of *Asahi Super Dry* and the emergence of our specialty beers reflect our understanding of taste preferences and is evidence of consumers' high appraisal of the quality of our offerings.

## OVERSEAS DEVELOPMENT

Looking at the global beer market, consumption has reached maturity in the United States, the world's largest market, and in the countries of Europe, where beer has a long and rich history. This situation stands in sharp contrast with China and countries in Latin America, such as Mexico and Brazil, where striking growth rates are being recorded. Particularly eye-catching is the soaring demand in China, which has the world's second largest consumption in terms of volume and is expected to outstrip the United States to become the world's largest beer market by 2000. ♦ Asahi is moving forward rapidly with plans to expand its presence in the United States, China, and Europe. In 1997, we concluded an agreement with China's oldest and largest brewer, Tsingtao Brewery Company Ltd., to form a joint venture, Shenzhen Tsingtao Beer Asahi Co., Ltd., in Guangdong Province. A brewing facility now being constructed is expected to be completed and ready for production in early 1999. In 1998, brewing of *Asahi Super Dry* will commence at a brewery in Yantai, in Shandong Province. ♦ *Asahi Super Dry* is now sold in more than 30 countries. We will allocate the resources necessary to build a network capable of supplying fresh beer to customers throughout the world and establish our flagship beer as a major player on the world stage.

## FUTURE STRATEGIES

In 1998, demand for beer in Japan is forecast to grow between 1% and 2%. Our marketing strategy will

continue to focus on reinforcing the image of *Asahi Super Dry*, complemented by specialty beers brewed to meet consumers' discriminating tastes. The ongoing implementation of Fresh Management principles and measures to enhance the effectiveness of our information network will be crucial to securing customer loyalty. The strengthening of our overseas network will take on greater significance in 1998, and we will strive to establish global operating standards as soon as possible to boost our competitiveness in the international arena.

♦ As regards facility investment, in October 1997 we completed our Research & Development Center in Ibaraki Prefecture. This center will play the leading role in our R&D activities through the 21st century. Our ninth domestic brewery, in Shikoku, is scheduled to come on line in June 1998. In addition, further outlays will be made with the aim of realizing zero waste at all production facilities. We have initiated an environmental upgrading program at our Nagoya Brewery that will transform it into an epoch-making chlorofluorocarbon-free (CFC-free) brewing facility. ♦ In conducting the aforementioned activities, we aim to create new synergies within the Asahi Group that reinforce our management philosophy. This will ensure that all employees are aware and focus on our ultimate goal of complete customer satisfaction. ♦ I look forward to the continued support and guidance of shareholders and friends in these endeavors.

March 1998



*Yuzo Seto*

Yuzo Seto,

President and Representative Director

**An Interview with Senior Management:** Asahi has realized rapid sales

expansion by responding to changing **Market Trends** and implementing

comprehensive **Product Quality**  management measures.

Well-focused marketing campaigns have propelled *Asahi Super Dry's* rise to become the leading

beer in Japan and helped carve out market niches for the Company's specialty beers. This growth

has been supported by prudent **Financial Strategies** and programs

to raise **Environmental Standards** throughout all our



operations. Asahi is now devoting greater resources to strengthen its presence in overseas

markets and enhance *Asahi Super Dry's* image as a **World Brand.**

## Marketing Activities

# Innovative Marketing Places *Asahi Super Dry* at the Head of the Pack

The information revolution that has taken place in Japan over the past 10 years has underpinned *Asahi Super Dry's* remarkable rise to the



leading position among domestically sold beers in 1997.

This revolution has expanded consumers' knowledge

of products and changed their concept of product value—developments that have provided significant opportunities to those companies willing and able to respond quickly to signals from the marketplace. ♦ The centerpiece of Asahi's endeavors to achieve customer satisfaction has been the Company's pursuit of Fresh Management principles. This campaign was launched in 1993 with the basic aim of minimizing the time elapsed between the completion of brewing to delivery to retailers. Fresh Management principles emphasize raising Companywide efficiency to even higher levels through the integrated management of procurement, production, distribution, and marketing

activities. In 1997, on average, *Asahi Super Dry* reached retailers' shelves within eight days of the completion of production. In 1998, Asahi's goal is to reduce this period to less than eight days. ♦ Asahi has capitalized on the success of *Asahi Super Dry* by launching a number of specialty beers that target expanding market segments. The refined taste of *Asahi Kuronama (Black Draft Beer)* has been well received in the market, and *Asahi First Lady*, a low-calorie beer, has captured a growing following among women. Asahi also markets a number of foreign beers in Japan, including *Miller Special*, *Bass Pale Ale*, and *Löwenbräu*, to accommodate a wider range of tastes. ♦ The successful blending of image and quality is extending *Asahi Super Dry's* appeal across a broader market cross section. Asahi's willingness to take on the



challenges being presented in the information era represents its commitment to achieving consumer satisfaction.



### "Turning Information into Profit"

The Company's ongoing investment in informa-

tion infrastructure is evidence of the priority it places on being able to accurately anticipate market needs—the key to profitable growth.

♦ In 1994, Asahi's management decided to implement an information infrastructure construction plan to improve its ability to identify and respond to changes in the marketplace. The two main thrusts of this plan were the promotion of end-user computing (EUC) and the establishment of a Companywide E-mail network. Since its commencement, more than 3,500 PCs have been installed at factories and branches and connected to the Company's information network: the Asahi Supernet. ♦ As part of this information enhancement process, in June 1997 Asahi issued notebook computers to all its sales representatives. This decision



has improved customer service standards by enabling sales representatives to access the Company's central data base and provide retailers with accurate and useful information as well as strengthened the foundations for future growth by raising employees' knowledge of the Company's information systems. Furthermore, the exposure to new technology has heightened our sales representatives' awareness of the importance of monitoring consumer trends and developments in the operating environment.

♦ Asahi has also distributed electronic notebooks to its 1,600 part-time female sales representatives—



marketing ladies—who, in addition to performing various promotional tasks, play a crucial role in carrying out Asahi's Fresh Management principles by checking the age of inventory in stores.

# ASAHI'S GLOBAL NETWORK

**U.K. Bass**

**Germany Löwenbräu**

**China**  
 • Beijing  
 • Yantai  
 • Hangzhou  
 • Jiaxing  
 • Quanzhou  
 • Shenzhen

**Japan**  
 • Tokyo

**Canada Molson Breweries**

**U.S.A. Miller Brewing Company**

**The Japanese Market**  
 Miller Special   Löwenbräu   Bass Pale Ale

**U.K. Bass**  
 ♦ Asahi began marketing *Asahi Super Dry* in Germany in October 1997 and concluded a marketing agreement with Bass Brewers in May 1996 to sell *Asahi Super Dry* in the United Kingdom.

**Germany Löwenbräu**  
 Left: *Asahi Beer*  
 Right: *Super Dry*  
 ♦ Asahi's new joint venture with Tsingtao Brewery strengthens existing production facilities in China that comprise four brewers and five breweries.

**Canada Molson Breweries**  
 ♦ Asahi plans to establish a joint venture with Miller that will help raise the profile of *Asahi Super Dry*, which is brewed in North America by Canadian brewer Molson.

**U.S.A. Miller Brewing Company**  
 Left: *Kuronama*  
 Right: *Super Dry*

## "Sending a Clear Message"

The consistency of the theme in *Asahi Super Dry* advertising campaigns has strongly affirmed the quality of the Company's premier beer in consumers' consciousness. Asahi has resisted the trend of imitation prevalent in industry advertising, thereby distinguishing and reinforcing the market image of *Asahi*



*Super Dry* and its other beers. ♦ At the same time, the Company's attentiveness to changing consumer tastes

has underpinned a gradual strengthening of consumer loyalty to the Asahi brand.

## "Making Asahi Super Dry a Global Brand"

Having claimed the position of Japan's leading beer with *Asahi Super Dry*, Asahi is now looking to extend the excellent reputation of its flagship beer to overseas markets. The Company is steadily expanding an international production and marketing network that includes alliances with several major brewers, with a view to establishing *Asahi Super Dry* as a truly global brand. ♦ In December 1997, Asahi entered

into an agreement with ITOCHU Corporation, Sumikin Bussan Corporation, the Chinese brewer Tsingtao Brewery



Company Ltd., and the Hong Kong investment company Pine Seal Investment Limited to establish a brewery in Guangdong Province. The joint venture, named Shenzhen Tsingtao Beer Asahi Co., Ltd., will have an initial annual production capacity of 100,000 kl and is scheduled to commence operations in early 1999. The brewery will produce *Asahi Super Dry* and

*Tsingtao Beer* primarily for the southern Chinese market, including Hong Kong. Asahi is already making plans to expand the brewery's annual production capacity to meet an expected increase in domestic demand and intensify its exports to the burgeoning beer markets in Southeast Asia. ♦ The joint venture strengthens Asahi's existing manufacturing facilities in China. Asahi and ITOCHU, as equity holders, have participated since 1994 in the management of four Chinese brewers, who between them operate five breweries—in Beijing, Yantai, Hangzhou, Quanzhou, and Jiaxing. *Asahi Beer*, a beer jointly developed by Asahi and its four

## Environment Activities

# Environmental Preservation—An Important Element of Quality

local brewing partners, recorded sales of 1.8 million cases in 1997, up 20% from the previous year. ♦ In 1997, the Company established the China Business Coordination Department to strengthen the management of its operations and dispatched managerial staff to Dalian, Beijing, Shanghai, and Guangzhou. Moreover, technical staff have been transferred to each local company to raise product quality and improve skill levels. Brewing of *Asahi Super Dry* will commence at the Yantai Brewery in 1998. ♦ Turning to Europe, Asahi entered the German beer market in October 1997 with the launch of *Asahi Super Dry*. The Company believes that achieving success in Germany, one of the world's oldest beer markets, is crucial to establishing *Asahi Super Dry* as a leading international beer. In the United Kingdom, *Asahi Super Dry* is being sold through the extensive retail network of a major British brewer, Bass Brewers Ltd., with whom Asahi concluded a marketing agreement in May 1996.

♦ In North America, Asahi is pursuing growth through a broad-based alliance with Miller Brewing Company, of the United States. *Asahi Super Dry* has been produced in Canada since 1994 by Molson Breweries, a major brewer. In 1998, Asahi plans to strengthen its presence in North America by joining with Miller to establish a new marketing joint venture.

Asahi believes that the environmental standards of its operations—production, in particular—are reflected in the quality of *Asahi Super Dry* and its other beers. The Company's numerous and far-reaching environmental measures are directed toward the achievement of four main goals. ♦ In environmental management, the elimination of waste from production facilities is Asahi's top priority. The Company is adopting a two-pronged approach to realize its goal of zero waste by lowering the volume of by-products and developing recycling processes to convert industrial waste into usable resources. In 1997, the Company moved closer to achieving this goal when both its Fukushima and Tokyo



The new Research & Development Center, in Ibaraki Prefecture



breweries joined the Ibaraki Brewery in achieving a 100% recycling rate for their components and by-products.

Asahi aims to accomplish a similar recycling level at all its breweries in fiscal 1998. ♦ Complementing these endeavors are efforts to lower the energy consumed and water used at breweries. The average amount of energy required to produce one kiloliter of beer at Asahi's breweries currently stands at 661,000 calories per kiloliter. The Company aims to reduce this figure approximately 14.1% in the near future. ♦ More efficient use of energy and resources is crucial to Asahi's third goal of reducing carbon dioxide (CO<sub>2</sub>) emissions as well as those of other greenhouse gases and ozone-depleting substances. ♦ Finally, Asahi is working to improve the recyclability of the containers in which its beer is sold. To this end, the Company is cooperating with other breweries in a project to develop facilities to recycle aluminum cans. ♦ Asahi has established an internal



**Koichi Asahi**  
Managing Director,  
Senior Deputy General Manager  
of Production Headquarters,  
and General Manager of  
Engineering Dept.

environmental audit network and conducted audits at all its breweries throughout the year.

### “Creating a Model Factory”

Asahi has announced plans to invest ¥3.5 billion to upgrade the environmental quality of its brewery in Nagoya. The planned reforms will create an epoch-making CFC-free brewery. The brewery will become a model facility at which new environmental technologies will be evaluated before being introduced at other breweries. ♦ Specifically, Asahi will introduce cogeneration, ammonia-absorbing refrigerators, which will serve the dual purpose of improving energy efficiency and eliminating CFCs. Ventilation equipment that uses ammonia and propane will be replaced with chilled water ventilating systems. Also, methane gas generated in water treatment processes will be harnessed as an energy source. Even vending machines at the factory will be modified to prevent CFC emissions. ♦ The energy reductions achieved through this investment are expected to result in annual cost savings of ¥400 million and lower CO<sub>2</sub> emissions by an amount equivalent to 8% per kiloliter of beer produced.

## Financial Activities

# Growing Market Share, Worldwide Production, and Transparent Financial Standards



Asahi's beer sales have soared 500% during the past 13 years. The major contributor to this explosive growth has been *Asahi Super Dry*. In only 10 years since its release, the Company's flagship beer has risen to claim the position of Japan's leading beer. It is marketed in more than 30 countries and is the fourth largest

selling beer in the world. In 1997, Asahi captured 34.4% on a tax volume basis of the domestic beer market and, at the current pace of sales growth, is on target to secure a leading share in the near future. Asahi's beers are brewed in China and North America, and the Company is rapidly building a worldwide

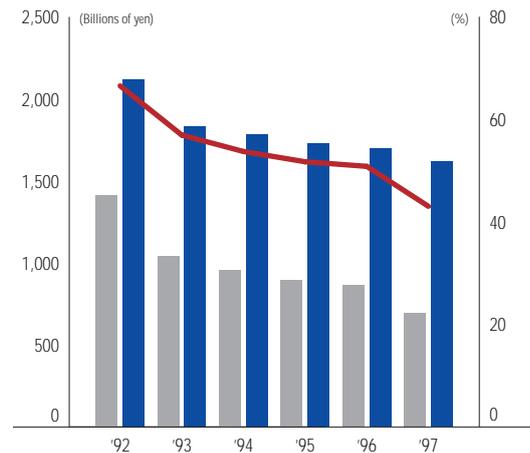
production network to ensure timely supplies to regional markets. ♦ The international beer market is now characterized by the rapid expansion of brands outside their national borders. In this era of globalization, the development of international operating and financial standards is more important than ever. Asahi is making

the adjustments essential to stay ahead of rival breweries while improving the transparency of its business practices.

### “Structural Integrity and International Competitiveness”

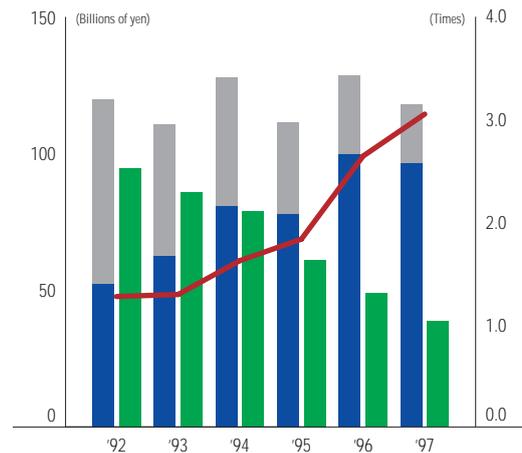
The implementation of financial strategies aimed at reinforcing its financial structure is

Changes in total capital employed and interest-bearing debt



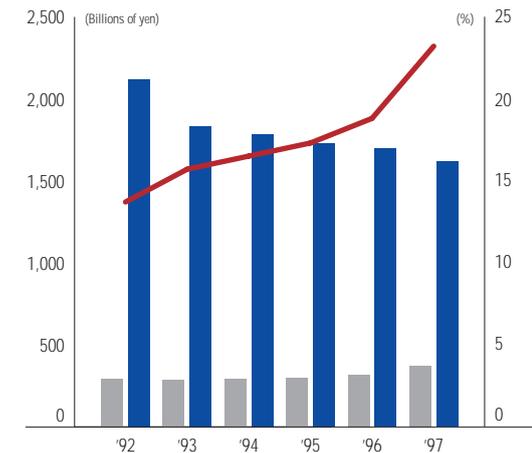
Billions of yen	'92	'93	'94	'95	'96	'97
■ A. Interest-bearing debt	1,411.1	1,040.5	957.2	893.3	862.0	695.6
■ B. Total capital	2,120.7	1,829.2	1,782.1	1,727.8	1,697.3	1,616.2
■ A/B (%)	66.5	56.9	53.7	51.7	50.8	43.0

Interest coverage



Billions of yen	'92	'93	'94	'95	'96	'97
■ A. Operating income	52.3	62.6	80.9	77.8	99.6	96.3
■ B. Interest and dividend income	67.5	47.9	46.8	33.6	29.1	21.5
Total (A+B)	119.8	110.5	127.7	111.4	128.7	117.8
■ Interest expense	94.6	85.8	78.8	61.0	48.8	38.6
■ Interest coverage (times)	1.27	1.29	1.62	1.83	2.64	3.05

Changes in the shareholders' equity ratio



Billions of yen	'92	'93	'94	'95	'96	'97
■ Total shareholders' equity	290.0	288.1	294.5	298.8	319.6	374.6
■ Total capital	2,120.7	1,829.2	1,782.1	1,727.8	1,697.3	1,616.2
■ Shareholders' equity ratio (%)	13.7	15.7	16.5	17.3	18.8	23.2

a key part of Asahi's plans to create an internationally competitive organization. Asahi has aggressively invested in new production facilities to realize the capacity required to support sales growth and made significant investments to build its presence in overseas markets. During this time of growth, the emphasis in investment decisions was weighed toward production capacity. However, this focus is now being shifted to fostering greater organizational flexibility, with the goal of maximizing the efficiency of capital allocations. Specifically, Asahi has moved to reduce the

number of outstanding shares, liquidate specified money trust operating assets, and write off investments in unprofitable overseas operating companies. ♦ As a result of these measures, the Company has stimulated greater cash flows and significantly reduced the amount of interest-bearing debt on its balance sheets. This debt has declined from a peak of ¥1,411.1 billion in 1992 to ¥695.6 billion as of December 1997, thereby strengthening the Company's cash flow balance. During the same period, Asahi's shareholders' equity ratio rose from 13.7% to 23.2%. ♦ These measures have also

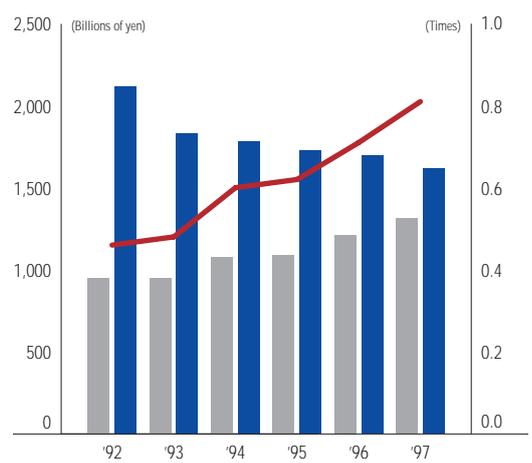
boosted the financial strength of the Asahi Group. Asahi continues to review the business prospects and profitability of all Group companies while planning measures to achieve stable growth.

**“Moving Forward as a Group”**

In 1998, all companies in the Asahi Group will maintain priority on delivering products of the highest quality to achieve the ongoing goals of realizing consumer satisfaction and supporting healthy, vigorous lifestyles throughout the world. ♦ Having recorded outstanding sales

growth rates in the domestic market during recent years, Asahi is now promoting global management standards to create an organization that is equipped to succeed in an era of megacompetition. Nineteen ninety-eight will be an important year for Group companies to advance existing programs and inaugurate measures to ensure a smooth transition into the 21st century. ♦ Asahi is not pursuing expansion per se, but profitable growth, and is therefore committed to implementing the reforms necessary to attain a Group structure that utilizes capital efficiently and profitably.

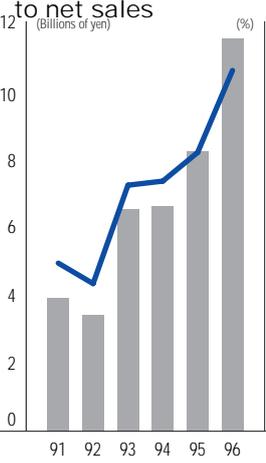
Total capital turnover rate\*



Billions of yen	'92	'93	'94	'95	'96	'97
■ Net sales	949.1	951.2	1,075.5	1,087.9	1,212.0	<b>1,313.3</b>
■ Total capital	2,120.7	1,829.2	1,782.1	1,727.8	1,697.3	<b>1,616.2</b>
■ Turnover rate (times)	0.46	0.48	0.60	0.62	0.71	<b>0.81</b>

\*The total capital turnover rate is calculated using the average of total capital at the beginning and at the end of each fiscal term.

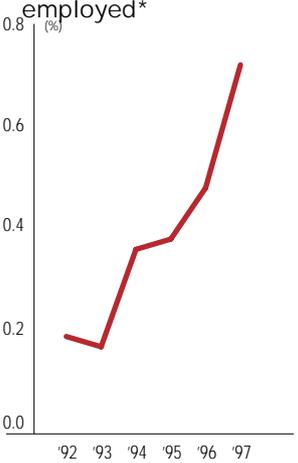
Net income and ratio of net income to net sales



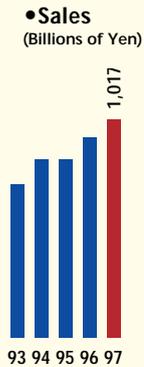
Billions of yen	'92	'93	'94	'95	'96	'97
■ Net income	3.9	3.4	6.5	6.6	8.2	<b>11.6</b>
■ Net sales	949.1	951.2	1,075.5	1,087.9	1,212.0	<b>1,313.3</b>
■ Ratio of net income to net sales (%)	0.41	0.36	0.60	0.61	0.68	<b>0.88</b>
■ Total capital	2,120.7	1,829.2	1,782.1	1,727.8	1,697.3	<b>1,616.2</b>
■ Ratio of net income to total capital (%)	0.19	0.17	0.36	0.38	0.48	<b>0.72</b>

\*The ratio of net income to total capital is calculated using the average of total capital employed at the beginning and at the end of each fiscal term.

Ratio of net income to total capital employed\*



# Alcoholic Beverages



**BEER** • Hindered by a downturn in consumption and unfavorable weather conditions, the domestic beer market contracted 2.2% on a tax volume basis in fiscal 1997. Despite this severe environment, Asahi posted an 11% increase in net domestic beer sales—the second consecutive year of double-digit sales growth—and boosted its market share for the sixth consecutive year. ♦ *Asahi Super Dry* celebrated in style the 10th anniversary of its release, posting a 17% year-on-year increase in sales and claiming the position as Japan's leading beer. Sales of *Asahi Super Dry* exceeded 100 million cases for the ninth consecutive year as its popularity continued to rise across the market. ♦ In the market for specialty beers, Asahi's pioneering *Asahi Kuronama (Black Draft Beer)* registered sales of 2.86 million cases and continued to be praised for its distinctive taste. *Asahi First Lady*, a low-calorie offering developed mainly for female consumers, improved on the commendable performance given in its inaugural year in 1996, reaching sales of 980,000 cases in the year under review.

The commencement of domestic production in April 1997 assisted Asahi in improving the quality of *Asahi First Lady* and thereby ensuring a loyal consumer base. ♦ Turning to operations management, under the slogan "The New Asahi Era—Transforming Innovative Concepts into Winning Business Strategies and Activities," Asahi worked to further integrate all aspects of its production, inventory control, and marketing systems in accordance with the Company's Fresh Management principles. To this end, the Company introduced a new information system to reduce the time it takes to revise production schedules and cooperated with can manufacturers to establish a computer-terminal-based ordering system. ♦ Asahi's domestic sales network, the industry's largest, comprises seven regional headquarters with jurisdiction over 75 branches. In 1997, the Company began distributing notebook computers to sales representatives, Asahi's marketing foot soldiers, to maximize the potential of its central data base and facilitate faster and more precise information gathering and analysis. Asahi's

responses to distribution and consumption patterns continue to propel the growth of *Asahi Super Dry* and enable the Company to carve out market niches with strategic specialty beers. ♦ While advertising activities mainly centered on *Asahi Super Dry*, the unique tastes of Asahi's other beer offerings were also highlighted in campaigns that reflected changing lifestyle preferences. Asahi continues to look for new foreign beers that cater to Japanese consumers eager to try overseas beers. The refreshing *Miller Special*, the satisfying *Bass Pale Ale*, and other foreign beers marketed by the Company performed well in 1997. ♦ Due to the aforementioned factors, Asahi's beer sales rose 10.6% during fiscal 1997, to total ¥959,864 million.

**OTHER ALCOHOLIC BEVERAGES** • Most of Asahi's operations in alcoholic beverages other than beer are handled by The Nikka Whisky Distilling Co., Ltd. While the popularity of low-alcohol-content beverages in



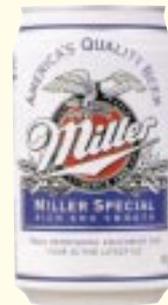
Super Dry



Kuronama



First Lady



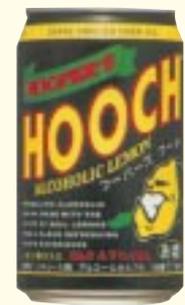
Miller Special



Bass Pale Ale



Löwenbräu



Hooper's Hooch

Japan continued to rise during the year under review, revisions to the Liquor Tax Law in October 1997 led to a decline in whiskey prices, a development that stimulated consumers' interest in this spirit. ♦ Maintaining its consumer-focused product development activities, Nikka Whisky Distilling released a selection of new whiskeys in 1997. The company's *New Blend* was well received in the commercial market, while its *New All Malt*, *New Malt Club*, and *Black Nikka Clear Blend* whiskeys fared well amid buoyant demand in the household sector. ♦ In wines, commercials featuring a popular Japanese artist boosted sales of the sparkling wine *Cidre* and other products. ♦ Despite the pickup in demand at the end of the year, the combination of the earlier stagnant market conditions and efforts to reduce inventory levels resulted in sales declining 10.0%, to ¥57.6 billion. ♦ Asahi imports and markets a range of foreign wines, primarily from Europe, the United States, and Australia. Also, the domestic subsidiary Asahi Beer Winery, Ltd., produces *Le Vin* and *Festa* wines. The

success of marketing aimed at promoting interest in wines contributed to an increase in sales and sales volumes of domestic and imported wines, which advanced 34.9% and 30.1%, respectively. ♦ Reflecting these results, consolidated sales of alcoholic beverages increased 9.1%, to ¥1,017.9 billion.

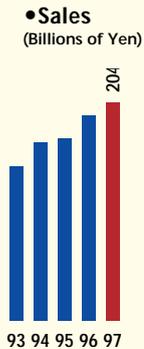
**OUTLOOK** ♦ Demand for beer in Japan in 1998 is predicted to expand approximately 2%. Amid this growth, consumers' concepts of quality and value are expected to steadily change. This will compel brewers to review their marketing strategies to find a balance between product quality and price that concurs with the general consumer consensus. ♦ In 1998, Asahi will again concentrate on enhancing the market profile of *Asahi Super Dry* and complementing the appeal of its flagship beer with strategically marketed specialty beers. ♦ Further raising *Asahi Super Dry's* profile in overseas markets is a top priority for Asahi, and, to this end, greater resources will be directed toward

strengthening alliances with foreign brewers and ensuring the smooth start-up of new production facilities. ♦ Due to the rising popularity of *Asahi Super Dry*, Asahi plans to bring forward the commencement of operations at its Shikoku Brewery, the Company's ninth domestic brewery, to June 1998. ♦ In view of an upcoming revision to the Liquor Tax Law that is expected to invigorate the market for whiskey, Nikka Whisky Distilling is aiming to secure the loyalty of new consumers with high-quality offerings and broaden its consumer base through innovative alcoholic beverages.



*Our lineup of wines*

# Soft Drinks and Food



**SOFT DRINKS** ● Asahi Soft Drinks Co., Ltd., has a broad lineup of soft drink products. ◆ In fiscal 1997, despite unseasonably cool weather in the peak demand months of July and August, soft drink shipments increased 3%, to an estimated 1.6 billion cases. This was primarily due to favorable weather conditions in the spring and autumn months and the success of manufacturers catering to changing consumer tastes through such measures as the release of new sugarless drinks and drinks in 500 ml polyethylene terephthalate (PET) plastic bottles. ◆ Amid this environment, Asahi Soft Drinks pursued aggressive marketing to enhance the appeal of such mainstay brands as *Mitsuya* and *Bireley's* and bolstered its product lineup with the introduction of a new canned coffee, *WONDA*. Sales activities again focused on expanding the network of vending machines that carry its offerings and conducting campaigns to raise the profile of its products at supermarkets and convenience stores. The company was rewarded for these diligent efforts with a 13% increase in soft drink

shipments, to 113.5 million cases. ◆ In carbonated beverages, Asahi Soft Drinks released *Mitsuya Pink Soda* to complement its other *Mitsuya* brand drinks. The continued success of the Ichiro Campaign, featuring one of Japan's most popular baseball players, helped boost sales 13% above the previous year's level. ◆ In September 1996, Asahi Soft Drinks launched a vegetable juice drink under its *Bireley's* brand and began promoting a revamped brand image for fruit juice and vegetable juice. The success of this strategy was reflected in a 30% increase in sales of *Bireley's* brand drinks, as opposed to a nearly 10% contraction in industrywide fruit juice sales. *Bireley's Peach* was a particularly outstanding performer, reaching shipments of 3.3 million cases, more than triple the original projections. ◆ Asahi Soft Drinks' new *WONDA* canned coffee performed above expectations, reflecting a total marketing strategy centered on advertisements featuring golf sensation Tiger Woods, which had the desired effect of sparking consumer interest. Shipments of this product

reached 7.7 million cases, and total sales of canned coffee, including sugarless *Kafeo*, rose 20%. ◆ Asahi Soft Drinks released *Teao*, its popular sugarless, mildly sweet tea in a 500 ml PET plastic bottle, in response to consumer preference for this larger size. Higher sales of this beverage contributed significantly to a 24% increase in black tea sales. ◆ Since its release in 1993, *Asahi Juroku Cha*, a blended Japanese tea containing 16 different natural ingredients, has recorded steady sales growth against a background of increasing demand for sugarless drinks. In 1997, sales advanced 9%, to 23.6 million cases. Also, sales of the company's Japanese green tea drink, *Ajiwai Ryoku Cha*, soared 44%, to 1.74 million cases. As a result of these stellar performances, sales of other teas as a whole expanded 6% during the year under review. ◆ In fiscal 1998, Asahi Soft Drinks will promote further reforms to improve its ability to respond to changing consumer needs and deliver high-quality products that contribute to healthy lifestyles.



WONDA



Juroku Cha



Mitsuya Cider



Sawayaka Budo



Bireley's Orange



Bireley's Peach



Teao

**FOOD** ● Asahi's food-related operations are mainly carried out through a wholly owned subsidiary, Asahi Beer Food, Ltd. This subsidiary manufactures and markets food and food ingredients, principally brewer's yeast extracts and related products. ◆ In fiscal 1997, food manufacturers struggled to attract support for new products as insipid economic conditions dampened consumers' enthusiasm toward trying new items. ◆ Amid this environment, sales in the freeze-dried food category expanded 14%, thanks mainly to strong exports. In contrast, sales of brewer's yeast extracts and flavorings suffered due to weak demand from food manufacturers, while those of commercial food products remained flat as conditions in the restaurant industry worsened. On a brighter note, the commencement of sales of *otsumami shozai* (side dishes) to convenience stores in spring provided a significant boost to consumer retail food product sales, which reached six times the level recorded in the previous fiscal year. ◆ Due to these

factors, consolidated sales of soft drinks and food increased 6.3%, to ¥204.2 billion, in 1997.

**OUTLOOK** ● In 1998, soft drink sales are forecast to expand between 1% and 2%. ◆ Under the slogan "Breakthrough for a Bright Tomorrow," Asahi Soft Drinks will implement measures to strengthen its operating structure, raise the quality of product development and marketing activities, and rejuvenate sales promotions. The company has set specific targets to achieve double-digit sales growth for the third consecutive year and realize the highest sales growth among major beverage producers. ◆ Looking at product strategies, Asahi Soft Drinks is confident its efforts to boost the market appeal of *WONDA* will assure a greater share of the canned coffee market—the largest among nonalcoholic beverages—while campaigns to reinforce the well-established images of products sold under the core *Mitsuya* and *Bireley's* brands will help

secure further sales gains. Also, the Company will take further steps to promote products that are suited to the expanding trend of health awareness, for example, by introducing new advertising campaigns to strengthen the position of such products as *Asahi Juroku Cha* and *Teao* in the strong growth markets for sugarless beverages. In emphasizing a total marketing approach, Asahi Soft Drinks will strive to develop new products that complement its existing lineup and form a springboard for advancing sales growth. ◆ In marketing activities, Asahi Soft Drinks will focus on three areas—product quality, information, and sales—in its endeavors to differentiate the company's soft drink brands and raise consumers' awareness of Asahi products. ◆ Centering on the activities of the company's Environmental Affairs Section, which was established in autumn 1997, Asahi Soft Drinks will work to improve the environmental soundness of its operations, in particular, through the elimination of industrial waste at factories.



Ajiwai Ryoku Cha



Kafeo

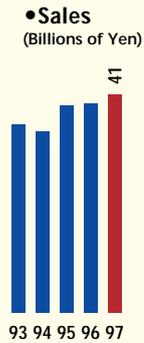


Oolong Tea



Otsunami Shozai (Side Dishes)

# Pharmaceuticals



Two consolidated subsidiaries, Torii Pharmaceutical Co., Ltd., and Asahi Beer Pharmaceutical Co., Ltd., are responsible for Asahi's operations in the pharmaceuticals market. ♦ Torii Pharmaceutical's mainstay product *Fulthan*, an injectable protease inhibitor, performed well as it moved toward maturity, recording a 3.3% year-on-year sales increase. Among the company's ethical drug lineup, sales rose slightly for *Urinorm*, a treatment for hyperuricemia, and *Ubretid Tablets*, a treatment for myasthenia gravis and dysuria. In addition, the company registered favorable sales of *Antebate*, a topical steroid preparation. ♦ An increase in the percentage of sales accounted for by in-house-developed products reduced sales costs, which resulted in improved profits. ♦ Sales of Asahi Beer Pharmaceutical's *EBIOS* brewer's yeast preparation continued on a downward trend in 1997. The company's lactic acid bacteria preparation *New Lactone A* has steadily secured a larger customer base since its release in October 1996

and is being distributed by an expanding network of pharmaceutical outlets. However, sales declined in 1997, reflecting the large shipments in the months following its release and product returns. On the other hand, Chinese medicine sales grew 4%. In bath products, sales of commercial-use products expanded 3% amid harsh market conditions. However, the company's withdrawal from the highly competitive market for liquid products resulted in a 24% decline in overall bath product sales. ♦ Due to the combined effect of these factors, Asahi's consolidated pharmaceutical sales rose 4.3%, to ¥41.9 billion.

**OUTLOOK** • Amid an uncertain outlook in the operating environment, Asahi's subsidiaries plan to reinforce the image of their mainstay products while developing new products that meet the emerging needs of an aging Japanese society.

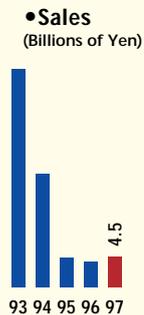


*EBIOS*



*New Lactone A*

# Real Estate



Overall, the condition of the Japanese real estate market remained depressed in fiscal 1997, although there were indications of recovery in selected areas. Asahi strove to enhance the management efficiency of its real estate holdings and develop attractive

rental packages. Higher sales more than offset a decline in rental revenues, resulting in consolidated real estate sales increasing 17.5%, to ¥4.5 billion.



Asahi's head office

# Addressing Social Issues

Asahi recognizes its responsibilities as a corporate citizen and strives to its utmost potential to improve the quality of life in the communities it serves. In addition to supplying fresh, healthy products and engaging in sound environmental management practices, the Company seeks to expand its involvement in activities outside its daily operations with a view toward facilitating well-rounded lifestyles. ♦ Asahi has been a prominent supporter of the arts and cultural events for many years. Asahi's lobby concerts and lectures, which have been held at various Company facilities since 1991, have proven extremely popular with employees and the public. No admission is charged for these events, which provide such diverse entertainment as musical performances by local and overseas artists and lectures on art and cultural themes by speakers prominent in their fields. To commemorate winning the 1996 Grand Mécénat Award—one of several awards granted yearly by the Association for Corporate Support of the Arts—Asahi held a lecture series entitled "Challenge to the Arts" at the Company's head office between January and March 1997.

Concerts were also held at each of the Company's brewing facilities between March and October 1997. ♦ The Asahi Beer Arts Foundation, established in 1989, also plays an active role in promoting the arts in Japan. The foundation aims to broaden people's artistic horizons by sponsoring such events as ballet and opera performances and art exhibitions. Another primary goal of this foundation is the fostering of cultural exchange. To this end, it provides scholarships to overseas students in Japan who study music and traditional Japanese arts. In 1997, scholarships were awarded to 13 students from various countries, bringing to date the total number of scholarships given to 50. ♦ In 1997, more than 120,000 people visited the Asahi Beer Oyamazaki Villa Museum, in Kyoto Prefecture. Opened in April 1996, the museum is a refurbished architectural treasure situated among scenic surroundings, which include a park and an art gallery developed from a historic Western-style building constructed in the Taisho period (1912-1926) by the late Shotaro Kaga, one of the founders of The Nikka Whisky Distilling Co., Ltd. The property was



A lobby concert at Asahi's head office



The UNICEF Foreign Coin Campaign

purchased jointly by Asahi and the Oyamazaki local government in 1991 in response to a request by the Kyoto prefectural government. The museum houses an extensive collection of Japanese art plus works of Bernard Leach and other major 20th century sculptors. A number of art treasures are on display in the adjacent art gallery, including works by Claude Monet. ♦ As part of broad efforts to foster community spirit, Asahi encourages employees to participate in community volunteer activities. Participation in such activities as sign language classes and UNICEF campaigns not only helps disabled and needy people but also contributes to employees' personal development. Asahi intends to increase its cooperation with other businesses and nonprofit organizations to support local volunteer groups, while working to improve the preparedness of communities for earthquakes and other natural disasters. ♦ To strengthen their ties with local communities, all of Asahi's brewing facilities hold an annual Customer Appreciation Day in which brewery tours and entertainment are provided for the enjoyment of visitors.



The Asahi Beer Oyamazaki Villa Museum, in Kyoto



Employees participating in Asahi-sponsored sign language classes

# FINANCIAL SECTION

## SIX-YEAR SUMMARY

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen						Thousands of U.S. dollars
	1997	1996	1995	1994	1993	1992	1997
<b>For the year:</b>							
Net sales.....	<b>¥1,313,257</b>	¥1,212,046	¥1,087,900	¥1,075,540	¥ 951,199	¥ 949,113	<b>\$10,094,209</b>
Operating income.....	<b>96,299</b>	99,643	77,829	80,858	62,556	52,297	<b>740,191</b>
Income before income taxes.....	<b>32,798</b>	36,291	24,480	25,168	17,880	22,554	<b>252,098</b>
Net income.....	<b>11,555</b>	8,231	6,607	6,492	3,434	3,882	<b>88,816</b>
Capital investments.....	<b>100,936</b>	48,366	33,906	19,015	69,592	54,141	<b>775,834</b>
Depreciation.....	<b>35,740</b>	34,245	32,629	31,407	29,196	26,937	<b>274,712</b>
<b>At year-end:</b>							
Working capital.....	<b>¥ (107,814)</b>	¥ (120,393)	¥ (176,793)	¥ 16,152	¥ 965	¥ 9,613	<b>\$ (828,698)</b>
Interest-bearing debt.....	<b>695,569</b>	861,955	893,300	957,227	1,040,544	1,411,062	<b>5,346,411</b>
Total shareholders' equity.....	<b>374,591</b>	319,645	298,798	294,530	288,064	290,034	<b>2,879,251</b>
Total assets.....	<b>1,616,210</b>	1,697,268	1,727,834	1,782,131	1,829,216	2,120,702	<b>12,422,826</b>
Yen							
U.S. dollars							
<b>Per share data:</b>							
Net income.....	<b>¥ 25.15</b>	¥ 19.18	¥ 15.60	¥ 15.54	¥ 8.23	¥ 9.30	<b>\$0.19</b>
Cash dividends applicable to the year.....	<b>11.00</b>	10.00	9.50	9.50	8.00	8.00	<b>0.08</b>
Shareholders' equity.....	<b>776.68</b>	723.99	703.45	702.73	689.97	695.03	<b>5.97</b>

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥130.10 to US\$1, the exchange rate prevailing at December 31, 1997.

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## FINANCIAL REVIEW

In fiscal 1997, ended December 31, 1997, Asahi's consolidated net sales expanded ¥101.2 billion, or 8.4%, to ¥1,313.3 billion.

◆ In alcoholic beverages, Asahi concentrated on promoting *Asahi Super Dry* and other brands, while implementing vigorous campaigns to raise the profile of such distinctive new offerings as *Asahi REDS*. These efforts resulted in net domestic beer sales rising 11%, significantly above the industry average.

◆ In the other alcoholic beverages category, the demand for whiskey was boosted by revisions to the Liquor Tax Law that led to lower whiskey prices. Nikka Whisky Distilling completed the successful launch in October of its *New Malt Club* and *Black Nikka Clear Blend* whiskeys; however, their strong performances were not enough to offset slow sales amid slack demand in the first nine months of the year, and sales of alcoholic beverages increased ¥84.8 billion, or 9.1%, to ¥1,017.9 billion.

◆ In the soft drinks and food sector, Asahi focused on boosting the profile of *Mitsuya Cider*, the fruit juice drink *Bireley's Orange*, and other mainstay products in its soft drinks lineup. Asahi released a new canned coffee, *WONDA*, conducted numerous brand name marketing campaigns, and strengthened its distribution by expanding the Company's vending machine network and developing marketing proposals for supermarkets and convenience stores. These efforts resulted in soft drinks sales volumes rising 13.0%. Owing to these activities, sales of soft drinks and food grew 6.3%, to ¥204.2 billion.

◆ A solid performance by ethical drugs supported a 4.3%, or ¥1.7 billion, increase in pharmaceutical sales, to ¥41.9 billion, while real estate revenues rose ¥0.7 billion, or 17.5%, to ¥4.5 billion, as Asahi recorded renewed growth in real estate sales. In other businesses, favorable conditions in the transportation business led revenues to expand 4.4%, or ¥1.9 billion, to ¥44.8 billion.

## COSTS AND EXPENSES

The growth in net sales during the year under review was accompanied by an increase in the cost of sales, which advanced ¥39.6 billion, or 11.6%, to ¥382.0 billion. The increase also resulted in a ¥47.5 billion, or 9.8%, rise in the amount of alcohol tax paid, to ¥530.6 billion.

◆ Selling, general and administrative expenses increased ¥17.5 billion, or 6.1%, to ¥304.3 billion. The principal reasons for this expansion were a ¥6.5 billion rise in promotional expenses, incurred mainly in the soft drinks business, and a ¥2.4 billion rise in sales premiums and commissions.

## OPERATING INCOME AND NET INCOME

Despite the increase in net sales, severe operating conditions in the soft drinks market, particularly after the increase in the national consumption tax rate in April 1997, combined with aggressive investments in promotional and marketing activities led to a 3.4% decline in operating income, to ¥96.3 billion.

◆ Interest and dividend income fell due to the decline in market interest rates and the weak performance of domestic stock markets. In addition, a ¥20.5 billion loss on liquidation of unconsolidated subsidiaries resulted in net other income (expenses) totaling ¥63.5 billion, approximately the same level as in the previous fiscal year.

◆ Consequently, income before income taxes fell 9.6%, to ¥32.8 billion. In contrast, net income soared ¥3.3 billion, or 40.4%, to ¥11.6 billion. Net income per share for the year under review was ¥25.15, up from ¥19.18 in the previous fiscal year. Annual cash dividends per share applicable to the year were raised ¥1.00, to ¥11.00.

## FINANCIAL POSITION

At December 31, 1997, consolidated total assets stood at ¥1,616.2 billion, down ¥81.1 billion, or 4.8%, from the previous fiscal year-end. This contraction reflected the sale by Asahi Beer International Holding (Australia) Ltd. of shares issued by Australian brewer Foster's Brewing Group Ltd. and bonds as well as repayments of long-term loans from banks.

◆ In current assets, Asahi reduced specified money trusts and time deposits by a total of ¥10.8 billion. In contrast, marketable securities advanced ¥6.4 billion, and notes and accounts receivable increased ¥22.3 billion, in line with the growth in net sales. Due to these factors, total current assets grew ¥23.0 billion, to ¥705.4 billion.

◆ Higher investment by the Company resulted in an increase in construction in progress, resulting in a ¥48.4 billion expansion in property, plant and equipment, to ¥670.0 billion. The majority of this investment was directed to the new Shikoku Brewery.

◆ Investment securities declined ¥152.0 billion, to ¥149.8 billion, due to the sale of shares issued by Foster's Brewing Group and bonds. Primarily due to this factor, investments and long-term receivables fell ¥152.5 billion, to ¥240.9 billion.

◆ Total current liabilities advanced ¥10.5 billion, or 1.3%, to ¥813.2 billion. While loan repayments led to a reduction in long-term debt due within one year of 29.2%, or ¥38.6 billion, this decline was largely offset by the increase in alcohol tax and consumption tax payable that accompanied the growth in net sales. Long-term debt fell ¥113.5 billion, or 23.7%, to ¥366.2 billion.

◆ Due primarily to these factors, total consolidated liabilities contracted ¥136.0 billion, to ¥1,241.6 billion.

◆ Consolidated total shareholders' equity rose ¥54.9 billion, to ¥374.6 billion, due to the holders of convertible bonds exercising their subscription rights. Consequently, the shareholders' equity ratio increased from 18.8% to 23.2%.

### CASH FLOWS

◆ During the year under review, Asahi's cash receipts rose in tandem with expanding sales of beer as well as soft drinks and food. While proceeding with the construction of the Shikoku Brewery, the Company's ninth domestic brewery, and other capital investments to support long-term growth, Asahi took advantage of its strong cash flow position to strengthen its capital structure.

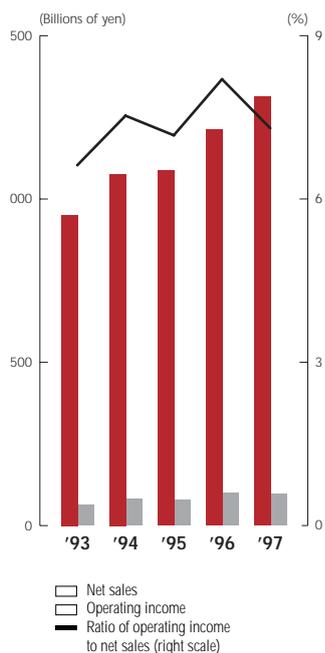
◆ Net cash provided by operating activities amounted to ¥95.0 billion. This figure represents net income of ¥11.6 billion, after being adjusted for depreciation of ¥35.7 billion and other non-cash operating items.

◆ Net cash provided by investing activities amounted to ¥25.3 billion. The major factors contributing to this figure were ¥69.3 billion in capital investments, net of increase in accounts payable relating to construction, and ¥79.5 billion in proceeds from the sale of marketable and investment securities, which primarily reflected the liquidation of specified money trusts and the sale of shares issued by Foster's Brewing Group and bonds.

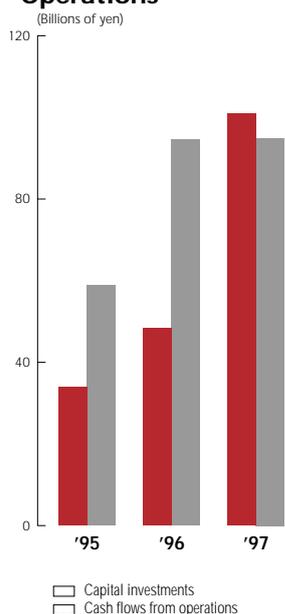
◆ Net cash used in financing activities amounted to ¥120.9 billion, ¥38.3 billion higher than the figure for fiscal 1996. The main components of this total were ¥73.7 billion used for the redemption of bonds and ¥54.9 billion applied to repayments of long-term loans from banks.

◆ Due to these factors, cash and cash equivalents at end of year totaled ¥22.6 billion, down from ¥22.9 billion at the previous fiscal year-end.

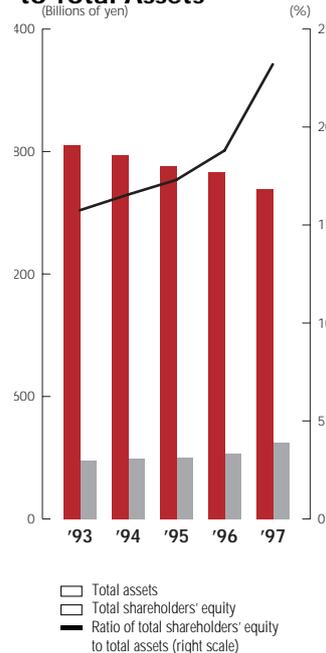
#### Ratio of Operating Income to Net Sales



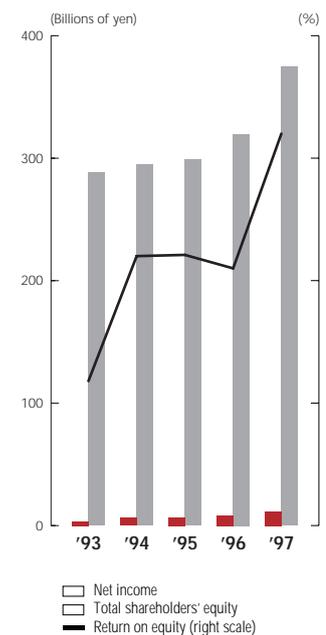
#### Capital Investments and Cash Flows from Operations



#### Ratio of Total Shareholders' Equity to Total Assets



#### Return on Equity



## CONSOLIDATED BALANCE SHEETS

Asahi Breweries, Ltd. and Consolidated Subsidiaries

December 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1997	1996	1997
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 22,603	¥ 22,898	\$ 173,736
Specified money trusts and time deposits .....	121,333	132,162	932,615
Marketable securities (Note 5) .....	151,085	144,728	1,161,298
Notes and accounts receivable:			
Trade .....	253,415	231,590	1,947,844
Other .....	25,026	24,362	192,361
Allowance for doubtful accounts .....	(1,775)	(1,627)	(13,646)
Inventories (Note 4) .....	100,857	96,273	775,223
Deferred income tax .....	266	310	2,049
Other current assets .....	32,568	31,644	250,335
<b>Total current assets .....</b>	<b>705,378</b>	<b>682,340</b>	<b>5,421,815</b>
<b>Property, plant and equipment (Notes 2 and 7):</b>			
Land .....	175,430	172,158	1,348,425
Buildings and structures .....	338,406	320,300	2,601,123
Machinery and equipment .....	425,942	400,450	3,273,955
Construction in progress .....	25,138	13,735	193,226
	964,916	906,643	7,416,729
Accumulated depreciation .....	(294,945)	(285,051)	(2,267,070)
	669,971	621,592	5,149,659
<b>Investments and long-term receivables:</b>			
Investment securities .....	149,757	301,710	1,151,090
Investments in unconsolidated subsidiaries and affiliated companies (Note 5) .....	17,980	17,931	138,201
Long-term loans receivable:			
Unconsolidated subsidiaries and affiliated companies .....	2,236	2,783	17,187
Other .....	6,831	8,602	52,503
Deferred income tax .....	14,072	11,577	108,167
Other investments .....	48,038	48,386	369,237
Deferred charges .....	1,947	2,347	14,967
	240,861	393,336	1,851,352
	¥1,616,210	¥1,697,268	\$12,422,826

See accompanying notes.

<b>Liabilities and Shareholders' Equity</b>	Millions of yen		Thousands of U.S. dollars (Note 1)
	1997	1996	1997
<b>Current liabilities:</b>			
Bank loans (Note 7) .....	¥ 235,662	¥ 249,936	\$ 1,811,389
Long-term debt due within one year (Note 7) .....	93,667	132,265	719,960
Notes and accounts payable:			
Trade .....	86,239	87,517	662,869
Other (mainly construction) .....	81,541	26,364	626,755
Alcohol tax and consumption tax payable .....	149,766	129,918	1,151,163
Deposits received .....	106,613	98,345	819,467
Income taxes payable (Note 9) .....	7,330	18,193	56,341
Accrued liabilities .....	51,267	57,761	394,059
Other current liabilities .....	1,107	2,434	8,510
Total current liabilities .....	813,192	802,733	6,250,513
<b>Long-term debt</b> (Note 7) .....	366,240	479,754	2,815,062
<b>Employees' retirement benefits</b> (Note 8) .....	14,004	13,669	107,642
<b>Other long-term liabilities</b> .....	8,918	10,785	68,548
<b>Foreign currency translation adjustments</b> .....	985	34,629	7,569
<b>Minority interests</b> .....	38,280	36,053	294,241
<b>Commitments and contingent liabilities</b> (Note 11)			
<b>Shareholders' equity</b> (Note 10):			
Common stock, par value ¥50 per share;			
Authorized—992,305,309 shares			
Issued—482,330,989 shares in 1997 and			
441,513,623 shares in 1996 .....	168,750	144,559	1,297,076
Additional paid-in capital .....	160,546	136,378	1,234,017
Legal reserve .....	6,279	5,798	48,264
Retained earnings .....	39,088	32,921	300,446
Treasury stock, at cost .....	(72)	(11)	(552)
Total shareholders' equity .....	374,591	319,645	2,879,251
	¥1,616,210	¥1,697,268	\$12,422,826

## CONSOLIDATED STATEMENTS OF INCOME

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1997, 1996 and 1995

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1997	1996	1995	1997
<b>Net sales</b> (Note 14) .....	<b>¥1,313,257</b>	¥1,212,046	¥1,087,900	<b>\$10,094,209</b>
<b>Costs and expenses</b> (Note 14):				
Cost of sales .....	<b>382,039</b>	342,445	317,458	<b>2,936,501</b>
Alcohol tax .....	<b>530,612</b>	483,148	433,984	<b>4,078,492</b>
Selling, general and administrative .....	<b>304,307</b>	286,810	258,629	<b>2,339,025</b>
	<b>1,216,958</b>	1,112,403	1,010,071	<b>9,354,018</b>
<b>Operating income</b> (Note 14) .....	<b>96,299</b>	99,643	77,829	<b>740,191</b>
<b>Other income (expenses):</b>				
Interest and dividend income .....	<b>21,459</b>	29,085	33,557	<b>164,943</b>
Interest expense .....	<b>(38,550)</b>	(48,759)	(60,958)	<b>(296,312)</b>
Loss on sale of marketable securities .....	<b>(7,173)</b>	(25,792)	(9,055)	<b>(55,133)</b>
Loss on sale and disposal of property, plant and equipment—net .....	<b>(7,966)</b>	(8,164)	(2,043)	<b>(61,228)</b>
Loss on liquidation of unconsolidated subsidiaries (Note 12) .....	<b>(20,463)</b>	(336)	(2,794)	<b>(157,288)</b>
Other—net .....	<b>(10,808)</b>	(9,386)	(12,056)	<b>(83,075)</b>
	<b>(63,501)</b>	(63,352)	(53,349)	<b>(488,093)</b>
<b>Income before income taxes</b> .....	<b>32,798</b>	36,291	24,480	<b>252,098</b>
<b>Income taxes</b> (Notes 3 and 9) .....	<b>18,680</b>	25,940	16,054	<b>143,581</b>
	<b>14,118</b>	10,351	8,426	<b>108,517</b>
<b>Minority interests in net income of consolidated subsidiaries</b> .....	<b>(2,384)</b>	(2,213)	(1,695)	<b>(18,326)</b>
<b>Amortization of goodwill arising from consolidation</b> .....	<b>(329)</b>	(330)	(398)	<b>(2,528)</b>
<b>Equity in net income of unconsolidated subsidiaries and affiliated companies</b> .....	<b>150</b>	158	255	<b>1,153</b>
<b>Foreign currency translation adjustments</b> .....	<b>—</b>	265	19	<b>—</b>
<b>Net income</b> .....	<b>¥ 11,555</b>	¥ 8,231	¥ 6,607	<b>\$ 88,816</b>
		Yen		U.S. dollars (Note 1)
<b>Amounts per share of common stock:</b>				
Net income .....	<b>¥25.15</b>	¥19.18	¥15.60	<b>\$0.19</b>
Diluted net income .....	<b>23.36</b>	17.56	—	<b>0.18</b>
Cash dividends applicable to the year .....	<b>11.00</b>	10.00	9.50	<b>0.08</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1997, 1996 and 1995

	Number of shares of common stock (thousands)	Millions of yen			
		Common stock	Additional paid-in capital	Legal reserve	Retained earnings
<b>Balance at December 31, 1994</b> .....	422,654	¥129,438	¥121,265	¥4,956	¥39,286
Decrease due to changes in consolidated subsidiaries .....					(11,602)
Increase due to change in accounting for income taxes (Note 3) .....					10,673
Net income .....					6,607
Cash dividends paid (¥10.00 per share) .....					(4,220)
Bonuses to directors and statutory auditors .....					(159)
Transfer to legal reserve .....				432	(432)
Shares issued upon conversion of convertible debentures .....	2,114	1,232	1,230		
Foreign currency translation adjustments .....					98
<b>Balance at December 31, 1995</b> .....	424,768	130,670	122,495	5,388	40,251
Net income .....					8,231
Cash dividends paid (¥9.50 per share) .....					(4,025)
Bonuses to directors and statutory auditors .....					(188)
Transfer to legal reserve .....				410	(410)
Shares issued upon conversion of convertible debentures .....	24,440	13,889	13,883		
Purchase and retirement of treasury stock (Note 10) .....	(7,694)				(10,000)
Foreign currency translation adjustments .....					(938)
<b>Balance at December 31, 1996</b> .....	441,514	144,559	136,378	5,798	32,921
Net income .....					<b>11,555</b>
Cash dividends paid (¥10.50 per share) .....					<b>(4,705)</b>
Bonuses to directors and statutory auditors .....					<b>(202)</b>
Transfer to legal reserve .....				<b>481</b>	<b>(481)</b>
Shares issued upon conversion of convertible debentures .....	<b>40,817</b>	<b>24,191</b>	<b>24,168</b>		
<b>Balance at December 31, 1997</b> .....	<b>482,331</b>	<b>¥168,750</b>	<b>¥160,546</b>	<b>¥6,279</b>	<b>¥39,088</b>

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings
<b>Balance at December 31, 1996</b> .....	\$1,111,135	\$1,048,252	\$44,569	\$253,049
Net income .....				<b>88,816</b>
Cash dividends paid (\$0.08 per share) .....				<b>(36,172)</b>
Bonuses to directors and statutory auditors .....				<b>(1,552)</b>
Transfer to legal reserve .....			<b>3,695</b>	<b>(3,695)</b>
Shares issued upon conversion of convertible debentures .....	<b>185,941</b>	<b>185,765</b>		
<b>Balance at December 31, 1997</b> .....	<b>\$1,297,076</b>	<b>\$1,234,017</b>	<b>\$48,264</b>	<b>\$300,446</b>

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Asahi Breweries, Ltd. and Consolidated Subsidiaries

Years ended December 31, 1997, 1996 and 1995

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1997	1996	1995	1997
<b>Cash flows from operating activities:</b>				
Net income .....	¥ 11,555	¥ 8,231	¥ 6,607	\$ 88,816
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation (Note 14) .....	35,740	34,245	32,629	274,712
Loss on sale and disposal of property, plant and equipment—net .....	7,966	8,164	2,043	61,228
Loss on liquidation of unconsolidated subsidiaries (Note 12) .....	20,463	336	2,794	157,288
Loss on sale and revaluation of securities .....	15,119	27,639	11,028	116,210
Allocation of unrealized exchange loss .....	3,215	4,791	4,791	24,712
Minority interests in net income of consolidated subsidiaries .....	2,384	2,213	1,695	18,326
Equity in net income of unconsolidated subsidiaries and affiliated companies .....	(150)	(158)	(255)	(1,153)
Net change in beginning retained earnings .....	—	—	(11,602)	—
Other .....	133	119	(124)	1,022
Changes in operating assets and liabilities:				
Increase in notes and accounts receivable .....	(22,341)	(29,602)	(14,032)	(171,722)
Increase in inventories .....	(4,584)	(412)	(8,560)	(35,234)
Decrease (increase) in other current assets .....	(3,640)	6,505	38,654	(27,979)
Increase (decrease) in notes and accounts payable (excluding construction) .....	22,228	(11,663)	(8,675)	170,853
Increase (decrease) in alcohol tax and consumption tax payable .....	19,848	14,482	(411)	152,560
Increase in deposits received .....	8,268	8,033	6,830	63,551
Increase (decrease) in income taxes payable .....	(10,863)	10,433	(1,533)	(83,497)
Increase (decrease) in accrued and other liabilities .....	(10,355)	11,201	(2,995)	(79,593)
Net cash provided by operating activities .....	94,986	94,557	58,884	730,100
<b>Cash flows from investing activities:</b>				
Capital investments (Note 14) .....	(100,936)	(48,366)	(33,906)	(775,834)
Proceeds from disposal of property, plant and equipment .....	8,850	5,800	6,667	68,024
Increase in accounts payable relating to construction .....	31,671	7,641	5,594	243,436
Decrease (increase) in marketable and investment securities .....	79,509	(17,456)	13,816	611,138
Decrease in specified money trusts .....	7,956	49,945	26,706	61,153
Decrease in long-term loans receivable .....	2,316	7,597	6,288	17,802
Increase in other investments .....	(4,098)	(3,766)	(5,247)	(31,499)
Net cash provided by investing activities .....	25,268	1,395	19,918	194,220
<b>Cash flows from financing activities:</b>				
Proceeds from long-term loans from banks .....	18,673	103,532	4,334	143,536
Repayments of long-term loans from banks .....	(54,869)	(85,026)	(60,695)	(421,745)
Redemption of bonds .....	(73,700)	(58,926)	(33,510)	(566,487)
Proceeds from bonds and convertible debentures issued .....	8,000	80,922	3,800	61,491
Increase (decrease) in bank loans .....	(14,274)	(44,075)	13,534	(109,716)
Cash dividends paid .....	(4,705)	(4,025)	(4,220)	(36,172)
Payment for subrogation of a subsidiary's liabilities .....	—	(65,000)	—	—
Purchase and retirement of treasury stock (Note 10) .....	—	(10,000)	—	—
Net cash used in financing activities .....	(120,875)	(82,598)	(76,757)	(929,093)
<b>Effect of exchange rate change on cash and cash equivalents .....</b>	<b>326</b>	<b>225</b>	<b>(5)</b>	<b>2,506</b>
<b>Net decrease (increase) in cash and cash equivalents .....</b>	<b>(295)</b>	<b>13,579</b>	<b>2,040</b>	<b>(2,267)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>22,898</b>	<b>9,319</b>	<b>7,279</b>	<b>176,003</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 22,603</b>	<b>¥ 22,898</b>	<b>¥ 9,319</b>	<b>\$173,736</b>
<b>Supplemental disclosures of cash flow information:</b>				
Conversion of convertible debentures to common stock .....	¥ 48,359	¥ 27,772	¥ 2,462	\$371,706
Cash paid during the year for:				
Interest .....	41,983	53,554	89,029	322,698
Income taxes .....	32,199	15,904	18,695	247,494

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Asahi Breweries, Ltd. and Consolidated Subsidiaries

### 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

ASAHI BREWERIES, LTD. (the "Company"), a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen in accordance with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements have been translated from the financial statements that are prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance of Japan. In preparing the accompanying financial statements, certain modifications, including the presentation of the statements of shareholders' equity and cash flows, have been made to facilitate understanding by readers outside Japan.

### 2. SIGNIFICANT ACCOUNTING POLICIES

*Consolidation*—The consolidated financial statements have included the accounts of the Company and its significant subsidiaries (22 domestic and 1 overseas subsidiary for 1997, 22 domestic and 2 overseas subsidiaries for 1996 and 24 domestic and 3 overseas subsidiaries for 1995).

The excess of investment cost over net assets at the date of acquisition is analyzed, and the portion regarded as land value increase is allocated to the cost of land. The remaining portion which cannot be identified is deferred and amortized over five years (except for investment in Torii Pharmaceutical Co., Ltd., which is amortized over 15 years) on a straight-line basis.

All the significant intercompany accounts and transactions have been eliminated.

*Equity method*—Investments in certain unconsolidated subsidiaries are accounted for by the equity method and, accordingly, stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

*Cash and cash equivalents*—Cash and cash equivalents include cash and time deposits with a maturity of three months or less.

*Allowance for doubtful accounts*—The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. It is determined by adding individually estimated uncollectible amounts to an amount calculated by a formula as permitted by the Corporation Tax Law of Japan with respect to the remaining receivables.

*Securities*—All securities included in both current assets and non-current investments are stated at cost determined by the moving-average method. Securities included in specified money trusts are valued at the moving-average cost on a portfolio basis. If a decline in value below cost of a security is judged to be material and other than temporary, the carrying value of the individual security is written down.

*Inventories*—Inventories are stated at cost. Cost is determined mainly by the weighted-average method for all inventories except for property for sale, which is determined on an individual basis.

*Property, plant and equipment*—Property, plant and equipment are carried substantially at cost. Depreciation is provided by the straight-line method with respect to production facilities and by the declining-balance method with respect to remaining assets. Estimated useful lives of the assets are as follows:

Buildings and structures.....	3-65 years
Machinery and equipment.....	2-20 years

Japanese tax regulations allow a company to defer capital gains on the sale of real estate if the company intends to offset such gains against the cost of newly acquired property, plant and equipment. When such accounting is followed, the cost of the new property, plant and equipment is reduced to the extent of the deferred capital gains, thereby affecting related depreciation charges and accumulated depreciation.

The financial statements are stated in Japanese yen. The translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at December 31, 1997, which was ¥130.10 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassifications have been made in the 1996 and 1995 financial statements to conform to the presentation for 1997.

*Income taxes*—Income taxes in the accompanying balance sheets have been provided for the amounts currently payable for each year based on taxable income.

From the year ended December 31, 1995, deferred income taxes are provided for the temporary differences arising from the elimination of unrealized intercompany profits (see Note 3).

*Employees' retirement benefits*—Non-contributory funded plans of the Company and its domestic consolidated subsidiaries cover a certain portion of the amount which would be required had all eligible employees voluntarily retired at the balance sheet date. The liabilities under the unfunded plan are provided at 40% of the remaining amount.

Annual contributions, which consist of normal costs as well as of amortization of prior service costs over approximately 13 years and 9 months, are charged to income when paid.

*Translation of foreign currency accounts*—Current monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date. The resulting translation gains or losses are included in "Other income (expenses), Other—net." Non-current assets and liabilities denominated in foreign currencies are translated at the historical exchange rate.

*Translation of foreign currency financial statements*—Through 1996, the balance sheet accounts of foreign consolidated subsidiaries were translated at the rate of exchange in effect at the balance sheet date, except long-term monetary assets and liabilities and deferred items, which were translated at historical rates. Income and expense accounts, except amortized deferred items, were translated at average exchange rates in effect during the year. Net income for the year and retained earnings at the end of the year of foreign consolidated subsidiaries were translated at the rate of exchange in effect at the balance sheet date. Differences arising from translation were presented as "Foreign currency translation adjustments" in the accompanying consolidated financial statements.

From 1997, due to the application of the revised Accounting Standards for Foreign Currency Transactions, the balance sheet accounts of foreign consolidated subsidiaries are translated at the rate of exchange in effect at the date of the subsidiary's balance sheet, except for (1) common stock, additional paid-in capital, and legal reserve, which are translated at historical rates, and (2) retained earnings, which constitute an accumulation of translated amounts of net income in the respective years. Income, expense and net income for the year of foreign consolidated subsidiaries are translated at the rate of exchange in effect at the subsidiary's balance sheet date. Differences arising from translation are presented as "Foreign currency translation adjustments" in the accompanying consolidated financial statements. The effect on the consolidated financial statements of the application of the revised standards was immaterial.

*Amounts per share of common stock*—Computations of net income per share of common stock are based on the weighted-average number of shares in issue during each year. For the computation of diluted net income per share, the average number of shares was increased by the number of shares that would have

been outstanding assuming all convertible debentures were converted on January 1, 1997 and 1996. Related interest expense, net of income tax, has been eliminated.

Cash dividends per share represent actual amounts applicable to the respective years.

### 3. CHANGE IN ACCOUNTING POLICY

Effective from the year ended December 31, 1995, the Company adopted the deferred income tax accounting method for temporary differences arising from the elimination of unrealized intercompany profits.

This change was made for the purpose of recognizing income tax expense (credit) on eliminated unrealized intercompany profits, due to such items having increased materiality on net income and retained

earnings as a result of an increase in the number of companies included in consolidation and accounted for by the equity method.

This change led to increases in net income for the year ended December 31, 1995 and retained earnings at January 1, 1995 of ¥197 million and ¥10,673 million, respectively.

### 4. INVENTORIES

Inventories at December 31, 1997 and 1996 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1997	1996	1997
Finished goods.....	¥ 16,423	¥13,773	\$126,234
Work in process.....	38,800	38,908	298,232
Raw materials.....	23,987	21,168	184,374
Supplies.....	7,689	8,007	59,102
Merchandise.....	11,090	11,189	85,243
Property for sale.....	2,868	3,228	22,038
	¥100,857	¥96,273	\$775,223

### 5. MARKET VALUE INFORMATION—THE PARENT COMPANY ONLY (UNAUDITED FOR 1996)

At December 31, 1997 and 1996, book value, market value and net unrealized gains (losses) of quoted securities included in marketable securities and investments in the accompanying balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars
	1997	1996	1997
Book value:			
Current assets—corporate shares.....	¥115,026	¥114,502	\$ 884,134
Investment securities—shares of subsidiaries and affiliated companies.....	34,342	34,342	263,967
	149,368	148,844	1,148,101
Market value:			
Current assets—corporate shares.....	65,344	83,250	502,260
Investment securities—shares of subsidiaries and affiliated companies.....	45,832	82,109	352,283
	111,176	165,359	854,543
Net unrealized gains (losses).....	¥ (38,192)	¥ 16,515	\$ (293,558)

### 6. DERIVATIVE TRANSACTIONS—THE PARENT COMPANY ONLY

The Company enters into interest rate swap contracts in order to minimize interest expense and interest rate risk within the limits of the balance of debentures and loans.

The contract amounts of derivative transactions outstanding at December 31, 1997 were as follows:

	Millions of yen	Thousands of U.S. dollars
Interest rate swap:		
Pay fixed.....	¥77,000	\$591,852
Pay variable.....	12,000	92,237

## 7. BANK LOANS, COMMERCIAL PAPER AND LONG-TERM DEBT

Bank loans at December 31, 1997 and 1996 were represented by short-term notes or overdrafts, bearing interest at rates of 0.65% to 2.67% per annum for 1997 and 0.58% to 1.625% per annum for 1996.

The Company has entered into a yen domestic commercial paper program with a current maximum

facility amount of ¥200,000 million (\$1,537,279 thousand). There were no outstanding balances at December 31, 1997 and 1996.

Long-term debt at December 31, 1997 and 1996 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1997	1996	1997
Domestic debentures:			
2.45% debentures due 2001 .....	¥ 20,000	¥ 20,000	\$ 153,727
2.85% debentures due 2001 .....	10,000	10,000	76,864
2.70% debentures due 2002 .....	15,000	15,000	115,296
3.05% debentures due 2002 .....	15,000	15,000	115,296
2.1% convertible debentures due 1997 .....	—	5,478	—
6.3% convertible debentures due 1997 .....	—	18,083	—
6.4% convertible debentures due 1998 .....	12,561	12,790	96,548
0.9% convertible debentures due 2001 .....	11,735	17,310	90,199
2.5% mortgage convertible debentures due 2001 .....	119	275	914
0.95% convertible debentures due 2002 .....	9,651	16,006	74,181
1.0% convertible debentures due 2003 .....	17,807	30,427	136,871
6.3% Japanese yen bonds due 1997 .....	—	30,000	—
6.35% Japanese yen bonds due 1997 .....	—	10,000	—
7.0% Japanese yen bonds due 1999 .....	10,000	10,000	76,864
7.3% Japanese yen bonds due 2000 .....	50,000	50,000	384,319
12.0% dual currency yen/DM bonds due 1997 .....	—	20,000	—
Various bonds and notes issued by consolidated subsidiaries .....	108,649	116,069	835,119
Long-term loans, principally from banks, insurance companies and agricultural cooperatives:			
Secured loans due through 2052 at interest rates of mainly 2.125% to 5.4% .....	9,403	14,029	72,275
Unsecured loans due through 2013 at interest rates of mainly 0.375% to 5.50% .....	169,982	201,552	1,306,549
	459,907	612,019	3,535,022
Amount due within one year .....	(93,667)	(132,265)	(719,960)
	¥366,240	¥479,754	\$2,815,062

The trust deeds, under which the domestic convertible debentures were issued, provide, among other conditions, for the conversion prices per share into common shares. The current conversion prices per share at December 31, 1997 were as follows:

	Yen	U.S. dollars
6.4% convertible debentures due 1998 .....	¥1,128.0	\$8.67
0.9% convertible debentures due 2001 .....	1,165.0	8.95
2.5% mortgage convertible debentures due 2001 .....	696.8	5.36
0.95% convertible debentures due 2002 .....	1,165.0	8.95
1.0% convertible debentures due 2003 .....	1,165.0	8.95

At December 31, 1997, 44,948 thousand shares of common stock were issuable upon full conversion of outstanding convertible debentures at the current conversion prices.

At December 31, 1997, the domestic debentures and secured long-term loans were collateralized by "factory mortgages" pursuant to the Factory Hypothecation Law of Japan as follows:

	Millions of yen	Thousands of U.S. dollars
Land .....	¥23,365	\$179,593
Buildings and structures (net of depreciation) .....	9,313	71,583
Machinery and equipment (net of depreciation) .....	3,877	29,800
	¥36,555	\$280,976

## 8. EMPLOYEES' RETIREMENT BENEFITS

Unamortized prior service costs under the non-contributory funded pension plan amounted to ¥12,476 million (\$95,893 thousand) at December 31, 1997.

## 9. INCOME TAXES

The Company is subject to corporation, enterprise and inhabitants taxes, which resulted in an aggregate normal effective tax rate of approximately 52% for 1997, 1996 and 1995.

The actual effective tax rate differed from the normal effective rate, primarily as a result of expenses not deductible for tax purposes and the effect of temporary differences in recognizing revenues and expenses for financial statements and tax returns other than those from the elimination of unrealized intercompany profits (see Note 3).

## 10. SHAREHOLDERS' EQUITY

According to the approval at the annual shareholders' meeting on March 28, 1996, the Company purchased 7,694 thousand shares of common stock at a cost of ¥10,000 million (\$76,864 thousand) and retired the number of shares authorized and outstanding by that number, respectively.

In accordance with the Commercial Code of Japan (the "Code"), certain issues of shares of common stock, including conversions of convertible debentures and exercise of warrants, are required to be credited to the common stock account to the extent of the greater of par value or 50% of the proceeds by resolution of the Board of Directors. The remaining amounts are credited to additional paid-in capital.

## 11. COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1997, the Company and its consolidated subsidiaries were contingently liable as guarantors for borrowings of unconsolidated subsidiaries, affiliated companies, employees and others in the amount of ¥12,474 million (\$95,881 thousand).

## 12. LOSS ON LIQUIDATION OF UNCONSOLIDATED SUBSIDIARIES

For the year ended December 31, 1997, the loss on liquidation of unconsolidated subsidiaries amounting to ¥20,463 million (\$157,288 thousand) was incurred due to the liquidation of three unconsolidated subsidiaries, including Asahi Beer International Holding (Australia) Ltd.

At the liquidation, the Company wrote off the investments and waived the foreign currency long-term loans receivable from Asahi Beer International Holding (Australia), which had been hedged by long-term

The aggregate annual maturities of long-term debt at December 31, 1997 were as follows:

Years ending December 31,	Millions of yen	Thousands of U.S. dollars
1998 .....	¥ 93,667	\$ 719,960
1999 .....	90,701	697,165
2000 .....	95,122	731,145
2001 .....	59,434	456,833
2002 .....	50,509	388,228
2003 and thereafter .....	70,474	541,691
	¥459,907	\$3,535,022

Charges with respect to employees' retirement benefits were ¥5,157 million (\$39,642 thousand), ¥4,877 million and ¥4,407 million for the years ended December 31, 1997, 1996 and 1995, respectively.

Income taxes of ¥18,680 million (\$143,581 thousand), ¥25,940 million and ¥16,054 million for the years ended December 31, 1997, 1996 and 1995 in the accompanying statements of income are net of deferred income taxes (credits) of ¥2,473 million (\$19,008 thousand), ¥1,128 million and ¥83 million, respectively.

The Code provides that an amount equal to at least 10% of cash dividends and bonuses to directors and statutory auditors shall be set aside as a legal reserve until such reserve equals 25% of common stock. The legal reserve is not available for dividends but may be used to reduce a deficit upon approval at a shareholders' meeting, or it may be capitalized by resolution of the Board of Directors.

forward exchange contracts. The balance of the loss on the relevant forward exchange contract that had been deferred and amortized over the life of the forward contract was charged to income as a part of the loss on liquidation of unconsolidated subsidiaries.

### 13. INFORMATION FOR CERTAIN LEASES

Finance leases which do not transfer ownership to lessees (and do not have bargain purchase provisions) are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Lease payments under financial leases, which are accounted for in the same manner as operating leases, for the year ended December 31, 1997, were as follows:

	Millions of yen	Thousands of U.S. dollars
Lease payments.....	¥23,650	\$181,783

This information is required to be disclosed, with effect from 1997.

### 14. SEGMENT INFORMATION

The Company operates primarily in the production and sales of alcoholic beverages, soft drinks and food, pharmaceuticals, real estate and others.

Business segment information for the years ended December 31, 1997, 1996 and 1995 was as follows:

Year ended December 31, 1997	Millions of yen						Elimination and/or corporate	Consolidated
	Alcoholic beverages	Soft drinks and food	Pharmaceuticals	Real estate	Others			
Sales:								
Outside customers .....	¥1,017,915	¥204,199	¥41,891	¥ 4,488	¥44,764	¥ —	¥1,313,257	
Intersegment .....	1,495	2,536	126	4,202	72	(8,431)	—	
Total sales .....	1,019,410	206,735	42,017	8,690	44,836	(8,431)	1,313,257	
Operating expenses.....	927,270	201,445	36,294	5,237	43,829	2,883	1,216,958	
Operating income .....	¥ 92,140	¥ 5,290	¥ 5,723	¥ 3,453	¥ 1,007	¥ (11,314)	¥ 96,299	
Identifiable assets .....	¥ 773,897	¥ 98,176	¥71,510	¥105,480	¥28,089	¥539,058	¥1,616,210	
Depreciation.....	26,483	2,604	1,531	1,865	1,892	1,365	35,740	
Capital investments.....	77,559	9,202	493	784	2,830	10,068	100,936	
Year ended December 31, 1996								
Sales:								
Outside customers .....	¥ 933,072	¥192,127	¥40,158	¥ 3,819	¥42,870	¥ —	¥1,212,046	
Intersegment .....	1,383	93	120	5,171	69	(6,836)	—	
Total sales .....	934,455	192,220	40,278	8,990	42,939	(6,836)	1,212,046	
Operating expenses.....	847,966	180,534	34,935	5,664	42,509	795	1,112,403	
Operating income .....	¥ 86,489	¥ 11,686	¥ 5,343	¥ 3,326	¥ 430	¥ (7,631)	¥ 99,643	
Identifiable assets .....	¥ 729,562	¥ 92,690	¥66,614	¥ 98,942	¥34,781	¥674,679	¥1,697,268	
Depreciation.....	26,059	1,678	1,634	2,064	1,971	839	34,245	
Capital investments.....	29,260	4,581	876	3,519	3,168	6,962	48,366	
Year ended December 31, 1995								
Sales:								
Outside customers .....	¥ 832,106	¥170,241	¥39,746	¥ 4,415	¥41,392	¥ —	¥1,087,900	
Intersegment .....	1,304	74	132	5,952	—	(7,462)	—	
Total sales .....	833,410	170,315	39,878	10,367	41,392	(7,462)	1,087,900	
Operating expenses.....	768,475	156,647	35,253	6,296	41,217	2,183	1,010,071	
Operating income .....	¥ 64,935	¥ 13,668	¥ 4,625	¥ 4,071	¥ 175	¥ (9,645)	¥ 77,829	

Year ended December 31, 1997	Thousands of U.S. dollars						Consolidated
	Alcoholic beverages	Soft drinks and food	Pharmaceuticals	Real estate	Others	Elimination and/or corporate	
Sales:							
Outside customers .....	\$7,824,095	\$1,569,552	\$321,992	\$ 34,496	\$344,074	\$ —	\$10,094,209
Intersegment .....	11,490	19,498	970	32,295	554	(64,807)	—
Total sales .....	7,835,585	1,589,050	322,962	66,791	344,628	(64,807)	10,094,209
Operating expenses.....	7,127,361	1,548,388	278,969	40,256	336,890	22,154	9,354,018
Operating income .....	\$ 708,224	\$ 40,662	\$ 43,993	\$ 26,535	\$ 7,738	\$ (86,961)	\$ 740,191
Identifiable assets .....	\$5,948,481	\$ 754,621	\$549,654	\$810,761	\$215,900	\$4,143,409	\$12,422,826
Depreciation.....	203,559	20,015	11,768	14,335	14,543	10,492	274,712
Capital investments.....	596,150	70,730	3,789	6,026	21,752	77,387	775,834

Effective from the year ended December 31, 1996, business segment information for identifiable assets, depreciation and capital investments was required to be disclosed. Assets in the corporate column mainly comprise current and non-current securities of the Company.

Sales outside Japan and sales to foreign customers were less than 10% of the Company's consolidated net sales for 1997, 1996 and 1995.

## 15. SUBSEQUENT EVENTS

(A) The Company issued domestic unsecured debentures for capital investments as follows:

	Millions of yen	Thousands of U.S. dollars	Date of issue
2.5% debentures due 2003 .....	¥10,000	\$ 76,864	Feb. 13, 1998
2.0% debentures due 2001 .....	10,000	76,864	Feb. 19, 1998

(B) The Board of Directors' meeting held on March 27, 1998, resolved the issue of ¥30,000 million (\$230,592 thousand) of domestic convertible debentures.

(C) At the March 27, 1998 annual meeting, the Company's shareholders approved the following appropriations of retained earnings:

(i) Payment of a year-end cash dividend of ¥6.00 per share aggregating ¥2,894 million (\$22,244 thousand),  
(ii) Payment of bonuses to directors and statutory auditors in the amount of ¥99 million (\$757 thousand) and  
(iii) Transfer of ¥300 million (\$2,306 thousand) from retained earnings to the legal reserve.

(D) At the same meeting, the following new provision in the articles of incorporation was approved: The Company may acquire its own shares, upon resolution of the Board of Directors, within the maximum limit of 40,000 thousand shares to retire such shares by offsetting against retained earnings.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
ASAHI BREWERIES, LTD.:

We have audited the accompanying consolidated balance sheets of ASAHI BREWERIES, LTD. (a Japanese corporation) as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997, expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of ASAHI BREWERIES, LTD. as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except for the change made as of January 1, 1995, in the method of accounting for income taxes as referred to in Note 3.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

*Asahi & Co.*

Tokyo, Japan  
March 27, 1998

# BOARD OF DIRECTORS



**Hirotaro Higuchi,**  
Chairman



**Yuzo Seto,**  
President



**Daizaburo Yui,**  
Executive Vice President



**Shigeo Fukuchi,**  
Executive Vice President



**Hisashi Usuba,**  
Executive Vice President



**Akira Tayama,**  
Executive Vice President

## Chairman

Hirotaro Higuchi

- 1949: Graduated from Kyoto University; joined The Sumitomo Bank, Ltd.
- 1980: Became head of the International Group of The Sumitomo Bank; became director and chairman of the board of The Sumitomo Bank of California and Sumitomo International Finance A.G. (1980–84)
- 1982: Became deputy president of The Sumitomo Bank
- 1986: Became president of Asahi Breweries
- 1992: Became chairman of Asahi Breweries
- 1995: Became deputy chairman of the Japan Federation of Economic Organizations (Keidanren)

## President

Yuzo Seto

- 1953: Graduated from Keio University; joined Asahi Breweries
- 1981: Became head of Sales Department I of Asahi Breweries
- 1988: Became senior managing director and head of Sales Headquarters of Asahi Breweries
- 1990: Became executive vice president of Asahi Breweries
- 1992: Became president of Asahi Breweries

## Executive Vice Presidents

Daizaburo Yui  
Shigeo Fukuchi  
Hisashi Usuba  
Akira Tayama

## Senior Managing Directors

Ken-ichiroh Masui  
Susumu Tsukada  
Masumi Uematsu  
Tatsuhiko Hirono  
Hiroshige Kimura

## Managing Directors

Ryozo Mochizuki  
Shigeru Iizuka  
Tatsuo Kashiwaya  
Koichi Asahi  
Kooichiro Takai  
Sugao Nishikawa  
Kouichi Ikeda

## Directors

Nobuo Yamaguchi  
Junichi Sakamoto  
Tomoaki Tsukiyama  
Eiichiro Yonenaga  
Tatsushiro Takahashi  
Isao Johshin  
Shyoichi Yamada  
Masatoshi Uchisaka  
Seizo Yabuuchi  
Saishiro Matsumoto  
Akashi Sato  
Tatsuo Wani  
Masaki Ogiya  
Yasuhide Higashi  
Yoshio Hatanaka  
Kenjiro Hiraki  
Hiroshi Fujita  
Sadao Ogura  
Hitoshi Ogita  
Tadashi Asahara

## Standing Corporate Auditors

Osamu Yamamoto  
Hiroshi Hasegawa  
Keisuke Nonaka

## Outside Corporate Auditors

Takahide Sakurai  
Tetsuo Furuya

(As of February 19, 1998)

## MAJOR SUBSIDIARIES

### DOMESTIC

#### Manufacturing

- **The Nikka Whisky Distilling Co., Ltd.**  
Issued Share Capital: ¥14,989 million  
Capital Investment Percentage: 58.2%  
Principal Business: Production and sales of whiskey
- **Asahi Beer Pax Co., Ltd.**  
Issued Share Capital: ¥3,000 million  
Capital Investment Percentage: 100.0%  
Principal Business: Production and sales of bottles
- **Asahi Beer Malt, Ltd.**  
Issued Share Capital: ¥90 million  
Capital Investment Percentage: 91.9%  
Principal Business: Processing of malt
- **Asahi Beer Winery, Ltd.**  
Issued Share Capital: ¥490 million  
Capital Investment Percentage: 100.0%  
Principal Business: Production and sales of wine
- **Nippon National Seikan Company, Ltd.**  
Issued Share Capital: ¥1,000 million  
Capital Investment Percentage: 51.0%  
Principal Business: Production and sales of cans and containers
- **Torii Pharmaceutical Co., Ltd.**  
Issued Share Capital: ¥5,190 million  
Capital Investment Percentage: 51.0%  
Principal Business: Production and sales of pharmaceuticals
- **Asahi Soft Drinks Co., Ltd.**  
Issued Share Capital: ¥4,282 million  
Capital Investment Percentage: 91.4%  
Principal Business: Production and sales of soft drinks and food

- **Asahi Beer Food, Ltd.**  
Issued Share Capital: ¥300 million  
Capital Investment Percentage: 100.0%  
Principal Business: Production and sales of food
- **Asahi Beer Pharmaceutical Co., Ltd.**  
Issued Share Capital: ¥490 million  
Capital Investment Percentage: 99.8%  
Principal Business: Production and sales of pharmaceuticals

#### Transportation

- **Asahi Cargo Service Tokyo, Ltd.**  
Issued Share Capital: ¥80 million  
Capital Investment Percentage: 100.0%  
Principal Business: Transportation and warehousing
- **Asahi Cargo Service Nagoya, Ltd.**  
Issued Share Capital: ¥10 million  
Capital Investment Percentage: 100.0%  
Principal Business: Transportation and warehousing
- **Asahi Cargo Service Osaka, Ltd.**  
Issued Share Capital: ¥72 million  
Capital Investment Percentage: 100.0%  
Principal Business: Transportation and warehousing
- **Asahi Cargo Service Kyushu, Ltd.**  
Issued Share Capital: ¥10 million  
Capital Investment Percentage: 100.0%  
Principal Business: Transportation and warehousing

#### Restaurants

- **Asahi Beer System, Ltd.**  
Issued Share Capital: ¥915 million  
Capital Investment Percentage: 75.0%  
Principal Business: Operation of restaurants

- **New Asahi, Ltd.**  
Issued Share Capital: ¥181 million  
Capital Investment Percentage: 100.0%  
Principal Business: Operation of restaurants
- **Asahi Beer Pizza Studio, Ltd.**  
Issued Share Capital: ¥90 million  
Capital Investment Percentage: 100.0%  
Principal Business: Operation of pizza restaurants
- **Asahi Beer Garden, Ltd.**  
Issued Share Capital: ¥100 million  
Capital Investment Percentage: 81.3%  
Principal Business: Operation of restaurants
- **Asahi Beer Garden Fukushima, Ltd.**  
Issued Share Capital: ¥30 million  
Capital Investment Percentage: 100.0%  
Principal Business: Operation of restaurants
- **Asahi Beer Garden Hakata, Ltd.**  
Issued Share Capital: ¥30 million  
Capital Investment Percentage: 100.0%  
Principal Business: Operation of restaurants
- **Asahi Beer Restaurant Service, Ltd.**  
Issued Share Capital: ¥110 million  
Capital Investment Percentage: 100.0%  
Principal Business: Operation of restaurants

#### Real Estate

- **Asahi Beer Real Estate, Ltd.**  
Issued Share Capital: ¥3,000 million  
Capital Investment Percentage: 100.0%  
Principal Business: Real estate leasing, sales, and development

- **Asahi Building Management, Ltd.**  
Issued Share Capital: ¥20 million  
Capital Investment Percentage: 100.0%  
Principal Business: Management and maintenance of real estate

### Finance

- **Asahi Beer Finance Co., Ltd.**  
Issued Share Capital: ¥80 million  
Capital Investment Percentage: 100.0%  
Principal Business: Trading of securities and loans

### Services

- **Asahi Beer Communications, Ltd.**  
Issued Share Capital: ¥50 million  
Capital Investment Percentage: 100.0%  
Principal Business: Facility tours and merchandise sales
- **East Japan Asahi Draft Beer Service, Ltd.**  
Issued Share Capital: ¥20 million  
Capital Investment Percentage: 100.0%  
Principal Business: Maintenance of draft beer equipment
- **West Japan Asahi Draft Beer Service, Ltd.**  
Issued Share Capital: ¥30 million  
Capital Investment Percentage: 100.0%  
Principal Business: Maintenance of draft beer equipment
- **Chuo Advertising Shinsha, Inc.**  
Issued Share Capital: ¥30 million  
Capital Investment Percentage: 53.3%  
Principal Business: Advertising representative
- **Asahi Beer Information System, Ltd.**  
Issued Share Capital: ¥110 million  
Capital Investment Percentage: 100.0%  
Principal Business: Computer services

## OVERSEAS

### United States

- **Asahi Beer U.S.A., Inc.**  
Issued Share Capital: US\$2 million  
Capital Investment Percentage: 100.0%  
Principal Business: Importing, sales, and marketing of beer  
Headquarters & Los Angeles Branch  
21250 Hawthorne Blvd., Suite 770,  
Torrance, CA 90503, U.S.A.  
Tel: (1) 310-316-7775  
Fax: (1) 310-316-9995  
  
Honolulu Office  
  
New York Branch  
11 Martine Ave., Suite 770,  
White Plains, NY 10606, U.S.A.  
Tel: (1) 914-428-3636  
Fax: (1) 914-428-2444
- **Asahi New York, Inc.**  
Issued Share Capital: US\$7 million  
Capital Investment Percentage: 100.0%  
Principal Business: Real estate leasing  
28 East 78th Street,  
New York, NY 10021, U.S.A.  
Tel: (1) 914-764-5419 (Agent)  
Fax: (1) 914-764-5421 (Agent)

### Europe

- **Asahi Beer France S.A.R.L.**  
Issued Share Capital: FFR51 million  
Capital Investment Percentage: 100.0%  
Principal Business: Holding company  
Tour Franklin Cedex 11 101, Terrasse Boieldieu,  
92042 Paris-La Defense 8, France  
Tel: (33) 01-55-61-31-80  
Fax: (33) 01-55-61-31-89

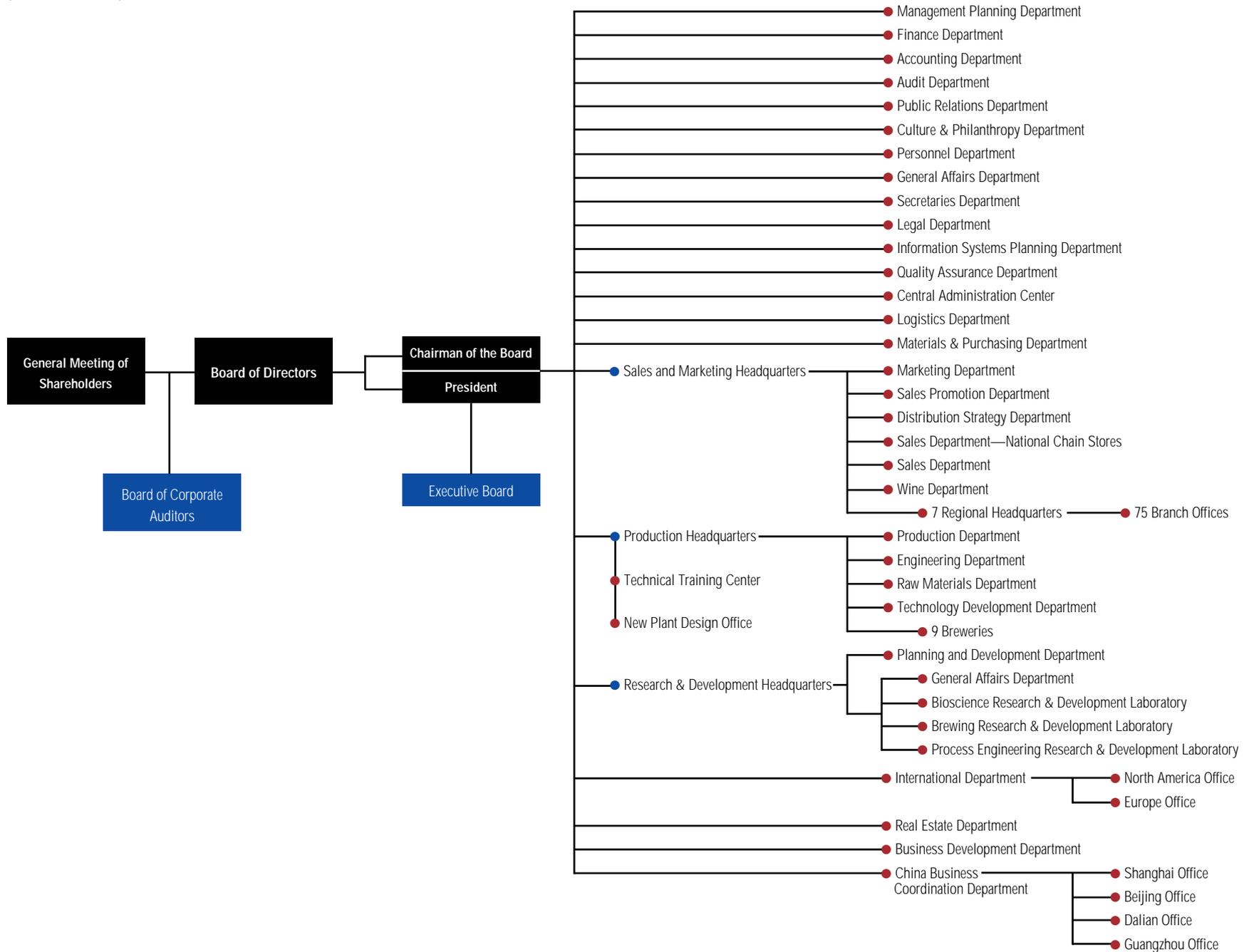
- **Asahi Beer International Finance B.V.**  
Issued Share Capital: NLG28 million  
Capital Investment Percentage: 100.0%  
Principal Business: Trading of securities and loans  
Strawinskylaan 3105, 7th Floor, 1077 ZX Amsterdam,  
The Netherlands  
Tel: (31) 20-4420268  
Telex: 15614 ALTRU NL  
Fax: (31) 20-4064555  
Inquiries should be directed to the Tokyo Head Office.
- **Buckinghamshire Golf Company Limited**  
Issued Share Capital: £11 million  
Capital Investment Percentage: 100.0%  
Principal Business: Ownership and management of a golf club  
Denham Court Drive, Denham,  
Buckinghamshire UB9 5BG, U.K.  
Tel: (44) 1895-835777  
Fax: (44) 1895-835210
- **S.A. du Golf International de Grasse Claux Amic**  
Issued Share Capital: FFR46 million  
Capital Investment Percentage: 80.0%  
Principal Business: Ownership and management of a golf club  
Lieu dit "Claux Amic" 06130 Grasse, France  
Tel: (33) 493-605544  
Fax: (33) 493-605519

Financial Information: As of December 31, 1997

Addresses and Telephone Numbers: As of March 31, 1998

# ORGANIZATION CHART

(As of March 27, 1998)



# INVESTOR INFORMATION

## Head Office

23-1, Azumabashi 1-chome,  
Sumida-ku, Tokyo 130-8602, Japan  
Tel: (03) 5608-5112  
Fax: (03) 5608-7111/5119

## Fiscal Year-End Date

December 31 on an annual basis

## Dividends

Year-end: To the shareholders of record on December 31  
Interim: To the shareholders of record on June 30

## Date of Establishment

September 1, 1949

## Paid-in Capital

¥168,750 million

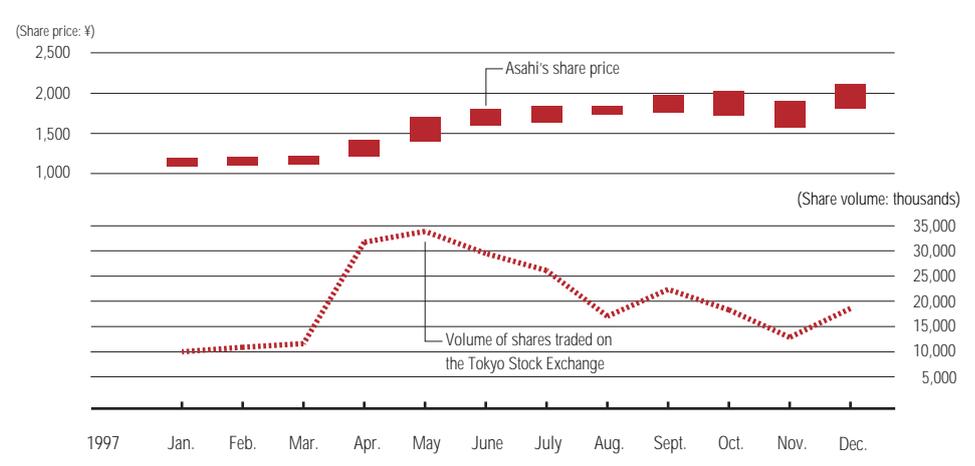
## Number of Shares of Common Stock Issued

482,330,989

## Number of Shareholders

49,597

## Share Price Movement



(As of December 31, 1997)

## Major Shareholders

The Dai-ichi Mutual Life Insurance Company  
Asahi Chemical Industry Co., Ltd.  
The Sumitomo Bank, Ltd.  
The Chase Manhattan Bank, N.A. London  
Fukoku Mutual Life Insurance Company  
The Sumitomo Trust & Banking Company, Limited  
Sumitomo Life Insurance Company  
The Toyo Trust and Banking Co., Ltd.  
THE NORINCHUKIN BANK  
ToHo Mutual Life Insurance Company

## Number of Domestic Offices and Facilities

Branch offices: 75  
Breweries: 9  
Laboratories: 3

## Number of Employees

4,233

## Stock Exchange Listings

Tokyo, Osaka, Nagoya, and Kyoto stock exchanges

## Newspaper for Official Notice

*Nihon Keizai Shimbun*

## Transfer Agent and Registrar

The Toyo Trust and Banking Co., Ltd.  
Corporate Agency Department  
10-11, Higashisuna 7-chome, Koto-ku,  
Tokyo 137-8081, Japan  
Tel: (03) 5683-5111

## Ordinary General Meeting of Shareholders

The ordinary general meeting of shareholders of the Company is normally held in March each year in Tokyo, Japan. In addition, the Company may hold an extraordinary meeting of shareholders as necessary, giving at least two weeks prior notice to shareholders.

## Auditors

Asahi & Co.



